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Investigating database marketing : a new information technology application to meet marketing challenges of the post industrial age

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INVESTIGATING DATABASE MARKETING:
A NEW INFORMATION TECHNOLOGY APPLICATION
TO MEET MARKETING CHALLENGES
OF THE POST INDUSTRIAL AGE

A Thesis
Presented to
The Faculty of the School of Journalism
and Mass Communications
San Jose State University

In Partial Fulfillment
of the Requirements for the Degree
Master of Science

by
Reenita Das
May 1995

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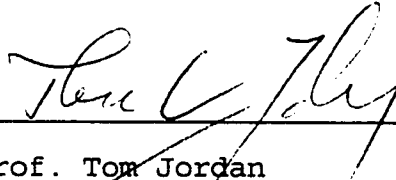
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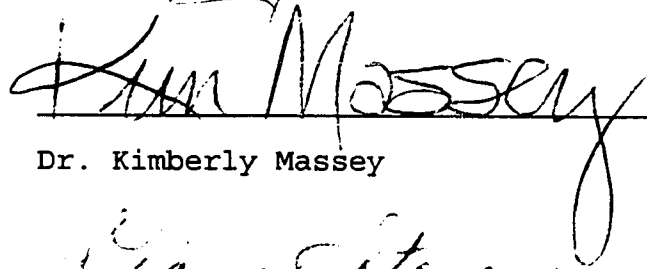
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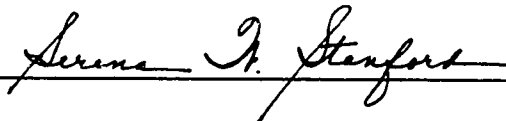
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ABSTRACT

INVESTIGATING DATABASE MARKETING: A NEW INFORMATION TECHNOLOGY APPLICATION TO MEET MARKETING CHALLENGES OF THE POST INDUSTRIAL AGE

by Reenita Das

This thesis examines the use of database marketing by three different companies (high technology, banking, and travel/cruise) utilizing the structure-conduct-performance framework to guide a qualitative analysis. It examines what factors in the external environment are responsible for the implementation of this technology, how it is utilized, and the consequences of its application.

Results indicate that database marketing allows companies to move from the mass marketing orientation of the industrial age to new forms of relationship marketing in the information age. Database marketing is emerging as a potential barrier to entry by solidifying a direct relationship between the company and its customers. In the future, it will be the fundamental way of approaching business in the information age.

I dedicate this thesis to my father, Kutu. Although he belongs to the traditional school of thought, he was quick to see the potential of database marketing and shaped many of my thoughts as a result of our stimulating discussions.

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Several people contributed to making this study possible, especially, the nine participants from the three companies. I thank them for taking the time to answer all my questions in spite of their busy schedules. I also particularly want to acknowledge a debt of gratitude to a few others who helped me in special ways.

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I would also like to thank Scott Taylor, my mentor in the business world, who taught me to look at marketing in a different light and for his commitment toward this thesis. Finally, I thank my husband, Santanu, for believing in me.

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CHAPTER I

Introduction

In astrology, being "on the cusp" means that you were born near the change of astrological signs. In other words, you have some traits of both signs and are not clearly "in" one or the other. That often makes astrological interpretation uncertain since it is difficult to determine which sign is holding sway. . . . We're between signs or periods, or perhaps even eras or epochs. And the road we take is not clearly marked, nor is the direction of how to get there. . . . Being on the cusp is being in a difficult time. We can't give up the old, but we must start thinking about the new. (Schultz, 1993a, p. 4)

The term, on the cusp, also describes where the field of marketing is currently located, moving from an orientation that was clearly product and production based to one where information and knowledge will dominate as the economy moves into post-industrialization. Marketing is presently between these two major conceptual and practical orientations and, consequently, is going through a period of discontinuous change.

With the demassification of the market (Toffler, 1980), the rise of the multiple option society (Naisbitt, 1982), and the changing demographic and psychographic structure of the traditional American household, the consumer environment has been in a state of flux for the past decade. Fragmentation of the market, the erosion of brand loyalty, failure of couponing (Shani & Chalasani, 1992), and new definitions of service (McKenna, 1988) have put consumers in control and a complete restructuring of

the relationship between manufacturer, retailer, and consumer is beginning to evolve. In trying to respond to the new demands of this diverse, discontinuous, and volatile market, companies are beginning to change their business philosophy.

As a result, many of the established principles of marketing based on the microeconomic paradigm of short-term profit maximization, exchange theory focusing on transactions as discrete events, and inside-out market planning are becoming obsolete. This turbulent environment has given rise to new concepts, strategies, and practices. Most notably, the concept of database marketing, which has been the direct result of the merging of marketing and technology, "has arguably created a revolution in the field of marketing" (Petrisson & Wang, 1993, p. 235) and is, indeed, capable of driving several paradigm shifts in marketing.

Database marketing is the most recent evolutionary step in the progression from traditional mass marketing and interactive direct marketing toward more customized marketing. The philosophy behind database marketing is that companies can become more effective if they are able to learn about and communicate with their customers based on individual characteristics rather than as only a part of an overall group (Petrisson, Blattberg & Wang, 1993).

Consequently, products and communications that are able to meet specific customer needs and wants can ultimately lead to the development of a new marketing paradigm of "customized mass marketing" (Schultz, 1994, p. 8), based on the "four Cs of marketing--channels, competition, cost, and consumer" (Schultz, 1989, p. 29).

Database marketing is a relatively new field of study, and although almost every company has adopted the technology in some form or another, not enough academic research has been reported. Because of the practical nature of database marketing and its wide diversity of application, the field lacks solid theoretical grounding. Most of the research that exists has been driven by practical questions rather than theoretical considerations and, consequently, is primarily limited to the business and trade press. Results from surveys have revealed that, although nearly every industry relies on database marketing, the varying levels of sophistication in its application and utilization cut across the board (Ballinger, 1994; Boorstein, 1994; "DMA: Over 90%," 1994; "Databases on the Rise," 1991). Little work has been devoted to understanding the multiple new forms of marketing that are taking place in organizations today, and identifying the barriers to maximum utilization of database technology that can enhance progress in the long term.

The purpose of this thesis is to examine how technology and economic factors, such as demassification and competition, are driving changes in marketing patterns, and how companies are responding to these macroeconomic changes by, in turn, changing their marketing philosophy and adopting new strategies such as database marketing. This study examines what factors in the external environment are responsible for the use of database marketing and analyzes how the concept is perceived and practiced in three companies from three different industries (high technology, banking, and travel/cruise). It defines how these organizations are practicing database marketing, and what obstacles to maximum utilization of database marketing capabilities are still in evidence for these organizations in transition.

This research was conducted utilizing qualitative methods. A qualitative approach was needed to lay the groundwork for future studies in this area--an area that will become extremely important as technology merges more and more with marketing, and increases market turbulence.

CHAPTER II

Review of the Literature

Before examining the concept of database marketing, it is important to first briefly review some of the changes in the marketplace that have given rise to database marketing. The implications of these changes on reshaping marketing strategy in terms of developing an outside-in customer approach to marketing, as well as redefining the four Ps-- product, price, place, and promotion--of marketing, will be discussed as part of the new paradigm of the marketing function within an organization. Since database marketing is far from a mature marketing science, there are varied definitions. These will be critically examined in the second section of the literature review. In the last section, the theoretical framework for this thesis shall be presented and discussed.

Environmental turbulence holds potential implications for a company's marketing orientation. As Davis, Morris, and Allen (1991) noted, "marketing is a boundary function, responsible for interacting with key components of the environment on a daily basis" (p. 45). As these components become more dynamic with the proliferation of technology and the information revolution, boundary functions such as marketing will be forced to be more flexible. The authors also noted:

Moreover, a company-wide aggressive marketing orientation would seem most critical when customers, their needs, the technologies for addressing those needs, and the economics of doing so are in a state of flux. (p. 45)

The Nature of the Post-Industrial Environment

In the literature, environments have been variously described as post-industrial (Bell, 1973; Huber, 1984), high velocity (Bourgeois & Eisenhardt, 1988), and unstable (Frederickson & Mitchell, 1984). In general, these environments are characterized by turbulence (Drucker, 1980), in that they display dramatic increases in the number of events that occur within a given period (Glazer & Weiss, 1993). It is widely agreed that post-industrial societies are characterized by more and increasing knowledge, more and increasing complexity and diversity, and more and increasing turbulence (Accrual, 1991; Huber, 1984). In fact, the primary distinguishing feature of this post-industrial world is postulated as the shift from material resources to information and intellectual resources as the basis of the economy; where information and knowledge are replacing capital and energy as the primary wealth-creating assets (Bell, 1973).

Ansoff (1979) determined that turbulence is a combination of several factors, such as changeability of the market environment, speed of change, intensity of competition, abundance of technology, discrimination by

customers, and pressures from governments or other influential groups. Emery and Trist (1965) noted the close relationship between resource constraints and structural fluctuations within turbulent environments. Basically environments were turbulent when interconnected organizations (for example, competitors) were concurrently seeking limited resources. When sufficient resources were not attracted, one outcome was structural fluctuation. Both structural fluctuations and resource constraints are expected to have an impact on competitive intensity. Metacalfe (1974) noted that the crises resulting from environmental change force organizations to compete and conflict in ways that systematically and unavoidably frustrate one another's policies. This destroys the organization's stability or equilibrium over time.

The greater turbulence of the post-industrial society demands that an organization's decision making be more frequent, faster, and more complex, or more specifically, the "time sensitivity of information" (Glazer & Weiss, 1993, p. 509) becomes perhaps the most significant factor in managerial decision making (Glazer, 1991; Glazer & Weiss, 1993).

Changes in the Marketing Environment

Having briefly identified the nature of the post-industrial environment, it is important to examine some of

the more specific changes in the marketplace that have evolved and directly impacted marketing strategy as a result of the advent of the post-industrial society. These changes are the globalization and the emergence of a borderless economy: rapidly emerging technology; deregulation and global competition; the rise of the information society; the demassification of the market; the changing American household; the decline of brand loyalty; the rise of the service economy; new ways to shop and pay; changes in distribution channels; the skepticism of the mass media; and finally, the rising costs of paper, postage, people, and printing. Each of these changes are briefly examined in the following section.

Globalization and the emergence of a borderless economy. Regional integration, which is based on the notion that nations can gain more competitive advantages by enduring alliances than by self reliance, has given rise to three economic superpowers: European Union, Japan, and the United States (Sheth, 1992). During the 1980s, globalization of the domestic economy, (because of lowering of trade barriers and the need to extend distribution bases to protect declining home markets), led to new forms of business organizations--partnerships, multiple types of ownership, strategic alliances, joint ventures, vertical integration, joint product development, and networks--

becoming prominent features of the economic landscape (Day & Wensley, 1983; Webster, 1992). As a result, boundaries between the organization and market have become invisible (Glazer, 1991). The globalization of the economy brings enormous benefits of economies of scale in production, distribution, marketing, and management (Davis, 1987).

Rapidly emerging technology. Schultz (1993b, p. 56) noted that "technology has changed the marketplace forever," and instability has been largely the result of rapidly changing technologies (Capon & Glazer, 1987). Technology has become "an economic juggernaut, making itself indispensable by driving things so fast that only technology can keep up" (Haeckel, 1994, p. 335). Consequently, integrating technology and marketing strategy will be the distinguishing element that affects corporate success in rapidly changing environments.

Technological advances have revolutionized business processes and practices. As Sheth (1992) noted:

Computerization of people, machinery, and physical facilities has literally reshaped the traditional economic concepts of scale, scope, and structure. . . . It is no exaggeration to suggest that traditional marketing theories based on location (for example, the law of retail gravitation, wheel of retailing, inventory management. . . .) may be obsolete when customers and suppliers can do business at any time and from anywhere. (p. 58)

Sheth suggested that the "traditional trickle-down theory of markets. . . for diffusion of technology and

products is being replaced by simultaneous introduction of technology to all markets" (p. 58). This trend is challenging the well-known concepts of diffusion of innovation theory and product market definitions in marketing strategy.

Technology has spurred the development of new products, resulting in faster product imitation, shorter product lifespan, shifts in product-market boundaries, and industry definitions based on markets rather than products (Glazer, 1991). Levitt argued that technology has driven the world to a "converging commonality" and the result is "the emergence of global markets for standardized consumer products" (1983, pp. 92-93).

The growth of database marketing can be directly related to the development and sophistication of computers. With technology and computers easily accessible, the cost has decreased dramatically. Thus, keeping track of an individual consumer's preferences and purchases--and responding to them--is becoming increasingly affordable. The Direct Marketing Association's (1990) study identified 37 technologies that will impact the industry in the future. New technologies (e.g., inkjet printing, selective binding, UPC scanning equipment, automatic number identification, and voice response capabilities) can ultimately deal with "customers as valued individuals and

create an environment in which people want to hear the messages they receive" (Copulsky & Wolf, 1990, p. 18). Rapp (1992) noted that databases can become enormously useful in combination with each of these new technologies. Clearly, the long-run competitive position of companies will depend on how well they learn to manage and increase their technological asset bases (Capon & Glazer, 1987; Direct Marketing Association, 1990; 1992).

Deregulation and global competition. As a result of deregulation, the theme of the 1980s was choice and options. Global competition resulted in increasingly better product performance at a lower cost to the customer (Webster, 1992), while new players in the world markets promised an even more competitive environment (Accrual, 1991; Thwaites & Glaister, 1992). Fierce competition resulted in many companies using price promotions as the lazy way to increase volume, and, in the process, "manufacturers convinced consumers that every brand will sooner or later be sold at a reduced price" (Hapoienu, 1990, pp. 40-41).

The rise of the information society. From an agricultural economy, to an industrial economy, the world has swiftly moved to an information age. In fact, "the proliferation of new information processing technology is being woven into the social fabric--unprecedented in both

speed and scope of penetration" (Blattberg, Glazer & Little, 1994, p. 1). More effective use of information is viewed as critical to being more market-oriented and to succeeding in an intensely competitive business environment (Menon & Varadarajan, 1992; Narver & Slater, 1990). Companies in the future will be defined by their "relative levels of information intensity" (Glazer, 1991, p. 1) to achieve competitive advantage.

Demassification of the market. Toffler (1980) coined the word demassification and described how mass society had splintered down to ever-changing sets of mini-markets. Later, Naisbitt (1982) developed the phrase, multiple option society to describe a marketplace that had literally exploded with variety and assortment of goods and services. To survive in this fast changing world, marketers need to rethink the old shotgun approach to mass marketing that had worked so well in the past and focus on more targeted and efficient ways to reach customers.

The changing American household. The traditional American family image has been shattered (Rapp & Collins, 1987, 1990, 1994). The consumer environment has been in flux with the emergence of a more knowledgeable and discerning customer (Thwaites & Glaister, 1992) whose needs and wants are constantly changing. This changing consumer environment fostered by increasing number of women in the

workforce, dual income households, more single parent families, the aging of the population, the rise in ethnic populations, and the shrinkage of the middle class (Hapoieniu, 1990; King, 1991; Rapp & Collins, 1990; Shani & Chalasani, 1992; Winkleman, 1993), has led to the development of lifestyles that are infinitely more complex.

Hughes (1994) identified consumer wants in the new age as recognition, service, diversity, information, and identification with product/service. An increase in per capita disposable income and changes in leisure time values have given rise to consumers who have more money to spend, but less time to spend it (Roman, 1988). As a result, consumers need products and services in their own time frame, not the providers' (Davis, 1987). Communicating with and selling to these moving, changing households demand radically new marketing strategies, where operating in real time means no lag time between identification and fulfillment of the need.

The decline of brand loyalty. In today's fractured, heterogeneous marketplace, tried and true marketing techniques, such as branding products and gaining market share, no longer guarantee loyal customers. Seeking to beat their competitors, companies have been swamping the market with new products and line extensions backed by ads, coupons, premiums, sweepstakes, and buy one, get one free

offers (Copulsky & Wolf, 1990). The flood of new products has tended to shorten the lifespan of existing products, and companies today face an additional battle for shelf space (Rapp & Collins, 1990).

With the plethora of product offerings, minimum differentiation in product features, the rise of no name brands, and me too ad campaigns, market share has more often been fought on short-term sales promotion (Shani & Chalasani, 1992). As cents-off coupons have proliferated, the temptation to jump from brand to brand has been very great, and the price of consistent loyalty has been too high (McKenna, 1988).

All these factors have further diluted brand loyalty. Consumers, today, have moved toward sophistication, shopping around for a better deal and, certainly, a better value (Schlossberg, 1992; Schultz, 1993a, Winkleman, 1993). The long-range solution must be to look beyond the dependency on couponing for better ways to gain an advantage in the marketplace. Schultz (1993c) noted that one way could be to organize by markets--not by brands--adopting an external orientation rather than an internal one. Hughes (1994) emphasized the importance of database marketing as "the solution by building bonds of trust, loyalty, and service that will inoculate the customer against discounts" (p. 3).

The rise of the service economy. Davis (1987) noted that services play a major role in every sector of the new economy even beyond the service sector. In fact, at present, service and price compete at the same time.

McKenna (1988) noted:

Competition from smaller companies in fractured markets has produced dramatic changes in how companies define their products. Their product is no longer just the thing itself; it includes service, word of mouth references, company reports, the technology, and even the personal image of the CEO. (p. 92)

Rapp and Collins (1987) contended that a service required a different kind of marketing--one that combines the older techniques of persuasion with the newest refinements of database marketing.

New ways to shop and pay. The computer, credit card, and the toll-free telephone number have drastically changed the very nature of the sales transaction. With the development of multimedia technology, interactive home shopping and electronic sales promotion will further revolutionize the buyer-seller relationship. New ways to shop mean new distribution opportunities for companies willing to look beyond their traditional methods of selling.

Changes in distribution channels. Fundamental changes in the nature of relations between the organization and its distribution channels have been taking place, where power

shifts in favor of distribution channels that are closer to the customer than the manufacturer have occurred (Glazer, 1991). This has increased the bargaining power of suppliers. The future digital world is going to greatly accelerate the trend of moving toward focused distribution to specific consumers and the question of who controls the customer is evolving into a complex issue (Blattberg & Glazer, 1994).

Skepticism of mass media. Because of massive fragmentation of the audience, it was reported by A. C. Nielsen, that, during the 1989-90 TV season, TV viewing declined for the first time in memory (Hapoienu, 1990). Because of the escape routes provided by independent stations, cable TV, VCRs, and the hand-held remote device as well as demands on personal time, the audiences for network TV commercials are going down (Duncan, Caywood & Newsom, 1993; Rapp & Collins, 1990).

Although the TV audience has been drifting away, the networks have been steadily raising their prices. With the introduction of multimedia and 500-channel options, more fragmentation, narrowcasting, and targeting is expected in the future. Marketers will need to rethink their media budgets and move away from the ratings paradigm (Schultz, Tannenbaum & Lauterborn, 1992). This need for more specialization follows the elite, popular, specialized

(EPS) cycle of mass media progression, noted by Merrill and Lowenstein (1971).

Cost of paper, postage, printing, and people. The main reason database marketing has become so popular today is the rising costs of the four Ps--paper, postage, printing, and people. Because of rising postal costs, the volume of mail solicitations actually shrank in 1989 for the first time in 12 years (Churbuck, 1990). Further, the cost of making personal sales calls has skyrocketed (Schultz, 1993b). To remain competitive, marketers have to find new ways to lower the cost of getting new customers while building relationships with current ones.

Implications for Marketing

All of the changes discussed above have resulted in new marketing concepts such as database marketing, relationship marketing, and mass customization among others. There is widespread agreement among scholars today that these new concepts cannot be fully understood within the traditional short-term goal orientation and profit-maximizing framework that has been the core of marketing theory for the past four decades (Webster, 1992). Although many scholars have acknowledged that subtle changes in the concept and practice of marketing have been fundamentally reshaping the field, not much work has been devoted to their underlying theoretical explanation and justification.

Consequently, most of these concepts are still in their infancy, and lack rigorous theoretical development.

How do these concepts differ from traditional marketing theory? What all these new concepts have in common is a customer focused, market driven approach. The core competency of a company today is defined by its knowledge base and technical competence, and the realization that a focus on customer markets is the ultimate source of competitive success (Accrual, 1991; Glazer, 1991). Consequently, customer relationships are seen as the key strategic resource of the business (Webster, 1992) and keeping customers satisfied is viewed as the best defense against competition (Lele & Sheth, 1987).

Historically, marketing was product oriented, based on marketing on the averages, and the one message fits all principle. Today, with turbulent market changes and, as a result of new technology, it is possible and imperative to move from broad, undifferentiated marketing programs to more targeted, selective, measurable approaches that allow for interactive, two-way communication between company and customer. The emphasis will be on the development of modular products which will allow customers to participate in their development as a partner in the production process (Blattberg & Glazer, 1994).

The primary difference between traditional marketing and the new integrated form of marketing is outside-in planning (Schultz, 1994). By having considerable information about every customer, the marketer can start to plan from the customer back to the product or organization rather than focusing on the product first and then moving toward the consumer (Schultz, 1994). Therefore, it is imperative that customized mass marketing should start with a database.

Table 1 (on page 20) summarizes some of the key differences between traditional mass marketing and customized new marketing. As noted earlier, the implications of environmental changes on marketing have resulted in significant changes in marketing orientation and focus. Consequently, differences in marketing strategy in terms of the four Ps--product, price, place, and promotion--have occurred. These key differences are outlined in the following table.

TABLE 1
Differences between Traditional Marketing and New Marketing

	TRADITIONAL MARKETING	NEW MARKETING
ORIENTATION	Product. Inside-out.	Customer. Outside-in.
DIRECTION	Company sells.	Customer buys.
SALES EMPHASIS	Capturing new markets/prospecting. Transactions as discrete events.	Loyalty/relationship marketing. Segment-of-one marketing.
STRUCTURE	Homogeneous. More mass marketing.	Heterogeneous. More specialization. Decentralized markets and decentralized products.
PROFIT MOTIVE	Short-term sales maximization.	Long-term customer lifetime value.
PRODUCTS	Standardized.	Customized. Modular products, based on customer needs. (Customer design).
UNIQUE SELLING PROPOSITION	Product based.	Customer based.
QUALITY	Operations focused.	Customer focused.
PRICING/COSTING	Based on volume or weight as a unit of analysis.	Based on customer's time/place associated values.
PRICING	More cost based and standardized.	More market based and customized.
SERVICE	Traditional product-service distinctions.	Focus on intangibles. Service more important.
PROMOTION	Undifferentiated promotion intensity. Marketing on the averages.	Differential promotion intensity. Investment based on net present value of customer.
COMMUNICATION	Mass. One message fits all. Broadcasting/shotgun approach. One-way.	Customized. Narrowcasting rifle approach. Two-way interactive.
TIME FRAME	Reactive marketing producing lag-time between identification and fulfillment of need.	Products available in real time (i.e., in customer's time frame) based on customer's present needs.
DISTRIBUTION	Reliance on traditional channels. Channel focused on product flows.	Products delivered in the space of the consumer. Channel focused on information management.
PLACE	Marketplace constrained by time and place.	Any time (round-the-clock), any place marketing.
BOUNDARY	Strict distinction between organization and environment.	Close relationships held together electronically. Borderless marketing.
PERFORMANCE	Capturing market share.	Based on return and scope.

Mass customization has a number of implications for marketing and communications in terms of the growing importance of distribution, delivery activities, and their increasing absorption of manufacturing's role: the substantial shrinking of inventory, overheads, and working capital; direct electronic access by suppliers, producers, distributors, and consumers to the full resources of one another; the consequent blurring of boundaries among these entities (borderless marketing); the likely evolution of electronically married groupings; and also, the globalization of enterprise that comes from combining developments in communications and logistics (Davis & Davidson, 1991). These trends are not independent of one another, but mutually reinforcing and, collectively, they sketch an emerging model for how businesses will conduct their affairs in the future.

Database marketing, relationship marketing, and mass customization have evolved differently from varying perspectives. Consequently, little attention has been paid to how they complement one another, or that their integration may lead to a synergy and the creation of a powerful marketing tool to deal with the changing marketing environment. However, it must be noted that this thesis's primary focus is on database marketing because it is the first step toward building relationship marketing and

developing a mass customization perspective. Therefore, it is important to explore the conceptual fundamentals of database marketing before progressing further. The following section will review some of the definitions of database marketing.

Definitions of Database Marketing

Because of the practical nature of database marketing and its wide diversity in applications, there is, to date, no universally accepted definition in the literature.

Because it has evolved out of direct marketing on a mass basis, one of the major setbacks database marketing faces today is most people in the field prefer to define it (and use it) solely within that context. However, as database marketing moves away from this narrow perspective into the mainstream and as the walls between direct marketing and mass marketing erode, it is expected that database marketing will be defined and utilized more broadly.

Database marketing has been defined in many ways by theorists and practitioners. For example, the National Center for Database Marketing defined database marketing as "transforming raw data into powerful, accessible, actionable marketing information systems" (quoted in Marcy, 1993, p. 24).

Most of the definitions differ in general versus

specific objectives of how a database marketing program can be utilized and the benefits that database marketing can deliver. Definitions either stress intention, process, or benefits. The vast array of possible objectives and outcomes of database marketing can be arranged along a continuum. On the tactical end, it is defined as a superior form of a mailing list to aid direct marketers. On the strategic end, it is viewed as a redefinition of marketing management and a new way of defining the relationship between the company and the customer. Simply put, "database marketing thus becomes an integral part of a company's operating philosophy" (Stacy, 1990, p. 67). The description places database marketing at its height of sophistication where it is utilized as the nerve center of an organization's philosophy toward building an interactive communication with the customer for a long-term relationship (Rapp, 1993; Schultz, 1993b).

In short, database marketing helps a company build distinctive market sensing and customer linking capabilities to guide the internal process. Day (1994) described market sensing capabilities to be:

How well the organization is equipped to continuously sense changes in its market and to anticipate the responses to marketing actions. (p. 49)

The author noted that organizations need to develop a customer linking infrastructure to enable them to use the

information in more strategic ways to build customer relationships. Day (1994) specifically defined customer linking capabilities to be:

Skills, abilities, and processes needed to achieve collaborative customer relationships, so individual customer needs are quickly apparent to all functions, and well-defined procedures are in place for responding to them. (p. 49)

In the literature, there has been a tendency by some practitioners to use the term, relationship marketing, as a synonym for database marketing. However, it is necessary to make a clear distinction. Shani and Chalasani (1992) noted:

Relationship marketing is an integrated effort to identify, maintain, and build up a network with individual consumers, and to continuously strengthen the network for mutual benefit of both sides, through interactive, individualized, and value-added contacts over a long period of time. (p. 34)

For others, like Morgan and Hunt (1994), relationship marketing is not restricted to customers only, but "refers to all marketing activities directed toward establishing, developing, and maintaining successful relational exchanges" (p. 22). Therefore, database marketing is a necessary tool to implement relationship marketing, but it is not, in itself, relationship marketing.

Conclusions and Statement of the Problem

Academicians and practitioners hold a variety of opinions about the future of database marketing and the

direction that the field will take (Petrison, Blattberg & Wang, 1993). In the literature reviewed, opinions are divided. Some noted that database marketing will remain a subsegment of the field of direct marketing and will therefore be used in less broad and mainstream ways by most companies. Others indicated that general marketers who have in the past relied on mass marketing will increasingly use more targeted and individualized means by which to communicate with their customers and that database marketing will become integrated into the overall marketing environment. More individualized marketing and product customization will be a necessary outgrowth of this process.

The field of database marketing is still young, loosely defined, and of a hybrid nature. The number of acknowledged success stories are definitely limited and there appears to be no formulas for success. The field is hindered by limited research in terms of both quality and quantity. Little academic work has been devoted to understanding the multiple new forms of marketing that are evolving in different organizations today. Such an understanding is critical to developing a new paradigm of customized mass marketing and a redefinition of the traditional concepts. Identifying problems and circumstances that organizations face in transition from

historical marketing to new database marketing will be critical to further progress.

The Structure-Conduct-Performance Framework

Since the field of database marketing lacks a theoretical grounding and current marketing theory is in a state of redefinition, it is necessary to look outside of the discipline for a theoretical framework for the qualitative analysis. Note that integrated marketing communications (IMC) do provide a framework. However, much like database marketing, it still remains a concept with great controversy over how to integrate, why to integrate, and what integration involves (Schultz, Tannenbaum & Lauterborn, 1992). As Schultz (1993d) noted, researchers are still at the stage of trying to settle on a unified definition of the term.

Turbulence in the external environment as a result of globalization (Davis, 1987; Sheth, 1992), technology proliferation (Blattberg, Glazer, & Little, 1994; Schultz, 1993b), market fragmentation (Rapp & Collins, 1987), competition (Accrual, 1991), and changing consumer culture (Rapp & Collins, 1990) has resulted in organizations being defined by their relative levels of information intensity to achieve competitive advantage (Glazer, 1991), and to become more market oriented (Menon & Varadarajan, 1992; Narver & Slater, 1990). Because of the evolving nature of

database marketing and its idiosyncratic utilization, what was needed to examine the concept was a qualitative approach housed within a general framework that would accommodate the challenges of a vastly more complex industry and marketplace.

This research sought to analyze database marketing through its utilization/application by companies and their perceived success or failure with that activity. Inasmuch as the goal and or function of the structure-conduct-performance framework is to study the behavior and performance of companies by focusing on various features of these business units, the framework was chosen as an appropriate fit for this thesis.

Caves (1987) supported the idea that a general framework can be useful for organizing variable data. He suggested the structure-conduct-performance framework because:

One swallow does not make a summer, and one hypothesis about seller concentration and profits does not provide enough grist for a whole branch of economics. . . .In order to organize (variables) efficiently we need a simple framework of concepts. . . .These concepts should allow us to translate into practical terms the many specific models of markets. . . .The most popular framework used for this purpose turns on three simple concepts--market structure, market conduct, and market performance. . . .Theory tells us that market structure (the environment) determines market conduct (the behavior of economic agents within that environment) and thereby sets the level of market performance.
(p. 14)

Huber (1984) underscored the importance of these concepts to an organization's survival when he wrote:

In general, organizations whose structures, processes, and technologies are well suited to their environment have a greater likelihood of survival than do those whose structures and processes are poorly suited to their environment. (p. 929)

Although the structure-conduct-performance framework of industrial organizational studies was not specifically tailored to post-industrial organizations, the concepts provided a general conceptual framework from which to conduct a qualitative study. It served as "useful main headings for our intellectual filing system" (Caves, 1987, p. 14).

This framework can be traced back to the work in the 1930s by Edward S. Mason who sought to identify sets of attributes and variables which influence economic performance of organizations (Mason, 1939). Later in a pioneering work, Bain (1959) formulated direct links between market structure and economic performance. Scherer (1970) developed a framework of industrial organizational analysis based on Mason's and Bain's study. At present, the structure-conduct-performance framework remains popular among economists. The value of this framework is that, by isolating elements in market structure or conduct that have caused poor market performance, revisions in policies to change the environment can be made to raise the level of

performance. Caves (1987) defined the specific concepts as follows:

Market structure consists of the relatively stable features of the market environment that influence the rivalry among the buyers and sellers operating within it. Market conduct consists of the policies that participants adopt toward the market. . .with regard to their price, the characteristics of their product, and other terms that influence market transactions. Market performance is our normative appraisal of the social quality of the allocation of resources that result from a market's conduct. (p. 14)

Market Structure

The macroeconomic environment surrounding the organization encompasses market structure. Caves (1987) outlined the main elements of market structure to be seller concentration, production differentiation, and barriers to entry which arise from scale economies, absolute cost elements, and product differentiation. Entry barriers can be measured by determining how high the market prices can be raised without attracting entry. Other variables of market structure are buyer concentration, fixed costs, and the rate of growth of demand. Scherer (1970) added vertical integration and "conglomerateness" as part of the market structure because the extramarket activities of an organization contribute to the nature of the structure. It is important to note that all the elements in market structure are interrelated, and any change in one tends to bring about changes in another.

Market Conduct

Market structure induces the organization to behave in certain ways in terms of setting prices and product strategy, setting product quality, and other nonprice policies, such as advertising, and investment in research and innovation, and legal tactics, to try and seek strategic advantage, and deter entry (Caves, 1987; Scherer, 1970).

Caves noted that, in purely competitive or purely monopolistic industries, market conduct is unimportant as companies simply react to the economic forces around them. However, market conduct becomes much more complex in oligopolistic industries, especially in terms of setting prices and promotional strategies.

Market Performance

According to economic theory, market performance is measured by production and allocation efficiency; progressiveness in enlarging and improving the flow of goods and services; full employment, and equity (Scherer, 1970).

Integration of Framework in Research

The structure-conduct-performance framework of industrial organizations was used to examine what factors in the external environment (market structure) led to the use of database marketing, how the tool was being

implemented and used (market conduct), and in what ways this ultimately affected the organization's performance (market performance). By using a framework to guide--not dictate--the qualitative analysis of companies utilizing database marketing, this study was designed to determine the extent to which existing conceptual frameworks apply to new post-industrial marketing strategies as well as to generate new theoretical concepts.

Research Questions

Utilizing the structure-conduct-performance framework as a guide, the following research questions were developed:

1. How are changes in marketing environments (technology, competition) driving new marketing strategies and practices (database marketing)?
2. How important is database marketing as an operational philosophy?
3. What do database marketers perceive as benefits, barriers, issues, and challenges?
4. How does the organizational structure affect the implementation and performance of database marketing?
5. To what extent, if any, is this framework--structure-conduct-performance--consistent with the changing marketing environment?

CHAPTER III

Method

Qualitative techniques are more suitable to research that is exploratory and descriptive in nature (Neuman, 1994). As mentioned earlier, the field of database marketing is very loosely defined and because of the hybrid nature of the subject matter, a qualitative approach was thought to be most appropriate for this research.

Further, Cantor claimed that utilizing qualitative research methodologies provides information that "could not otherwise be generated from the hypothesis-testing methodologies such as experiments and surveys, which are more commonly advocated in the social sciences" (1987, p. 254). Walker (1985) echoed this position when he wrote:

There is an important place for qualitative research in its own right. As already noted, much of what needs to be known cannot be learnt (sic) from quantitative research and in such circumstances knowledge has all too frequently been invented. Qualitative research reaches parts that other techniques don't. (p. 18)

Therefore, a qualitative approach was needed to lay the groundwork for future studies in this area--an area which will become extremely important as technology merges more and more with marketing and increases market turbulence.

The study was conducted within three companies from three different industries (high technology, banking, and

travel/cruise). Each company is headquartered in the greater San Francisco Bay area and is a leader in its field.

The number of sites were limited to three companies because of the amount of data and thick description that is generated by qualitative methods. By exploiting the context of data gathering, qualitative researchers feel they enhance the value of the data. Typically, this results in large volumes of extremely rich data obtained from a limited number of individuals, as opposed to the quantitative approach which, although employing larger numbers of respondents, requires standardized data collection. Qualitative methods' thick description (as described by Geertz, 1973) encompasses the layer of meaning that lend the events their significance for the participants.

The companies were selected on the basis of the researcher's personal contacts, and their willingness and cooperation to participate, as well as meeting the requirements of this study in terms of practicing database marketing.

The researcher defined database marketing as a proactive and interactive approach to marketing which uses a computerized relational database to store all customer communication and contacts; and personalized promotional

media (such as mail, telephone, new electronic media, and the sales force) to: build a long-term relationship with customers; more effectively target prospects; provide better service; build loyalty; reduce attrition; increase customer satisfaction and sales and, turn customer information into marketing intelligence to ensure more strategic long-term planning of all marketing from the customers' perspective.

The structure-conduct-performance framework was used to examine why database marketing was needed (market structure), how it was being implemented and practiced in the organization (market conduct), and how this ultimately affected its performance (market performance). The objective was not to empirically test theory, but rather to increase understanding of a unique social context which lends itself to the qualitative approach. In fact, these methods are more appropriate in situations which are less wedded to a theory or research hypothesis (Neuman, 1994). Consequently, in this study, theory was used not to dictate, but rather to guide the research process.

Therefore, the investigation sought to add to or expand already existent knowledge of database marketing by the application of the data to the framework. Consequently, allowing an extant scheme to inform the analysis should not be seen as an even minor infringement on qualitative

research orthodoxy. Walker (1985) suggested that such cross pollination was acceptable if it maintained conceptual validity which requires the clear defining of categories within which the data are to be organized.

Participant Overview

A total of nine individuals participated in this research project. Participants included males and females from the upper and middle management levels of the marketing and information technology departments in these companies. The respondents were determined by the participating organizations themselves--not uncommon in qualitative research--since these were the people who were involved with database marketing, possessed the expertise, and were available to answer questions. As a result, the number of respondents from each company was not equal. Four participants were interviewed from the high technology company, three from the bank, and two participants from the cruise line.

The researcher conducted in-depth personal interviews with respondents. Burgess (cited in Silverman, 1993) noted that in-depth interviews give greater insight than any other research technique. It allows respondents to use their "unique ways of defining the world"; it assumes that no "fixed sequence of questions is suitable to all respondents"; and it allows respondents to "raise important

issues not contained in the schedule" (Denzin, 1970, p. 125). All interviews were audiotape recorded. Open-ended questions were used with subsequent follow-ups. The questionnaire format was semi-structured which permitted richness of detail, and qualified and clarified responses. Apart from general questions, specific questions were tailored to the different companies who were operating in different industries. Often the same respondents were interviewed again as more questions came up and clarifications were needed. The interviews usually took 75 minutes on an average and two rounds of interviews were conducted with each of the nine respondents from the three companies.

Coding Categories

After the data were collected and transcripts made, the researcher organized the raw data into three specific categories--market structure, market conduct, and market performance. Variables included in market structure were competition, barriers to entry, market growth, technology, information society, distribution channels, consumer environment, and recession/downsizing. The reasons for companies implementing database marketing were included in market structure.

Market conduct encompassed the way in which an organization behaves and the strategies employed. These

were identified as product/price strategies, direct marketing tactics, the unique capabilities that companies develop to conduct themselves, database marketing objectives and its relation to the corporate mission. The way in which an organization used database marketing and the challenges faced were part of market conduct.

Market performance was defined as profitability and sales. In this study, significant benefits derived from database marketing were included in market performance.

Coding

All coding was conducted by two people, a university professor and the researcher. Once the transcripts and the structure-conduct-performance definitions were distributed, the professor and the researcher spent one session familiarizing themselves with the categories and discussing the kinds of information that might be included in each. In the second session, the researcher and the professor presented their coding of the computer company interviews and discussed the decisions they made. Where differences did occur, discussions took place until agreement was reached. Most of the discussion related to whether the data actually fit into market structure or market conduct, or both.

Again, the goal of the researcher was the creation of a data set that could be used to examine database

marketing, not to squeeze incontrovertible information into unanimously agreed upon categories. When expressions did not fit the framework, they were not jettisoned. In fact, they became valuable not only in providing insight into database use but as comments on the worth of the framework itself, which will be addressed in the discussion section.

After the researcher applied the structure-conduct-performance framework, all remaining emergent interview information was interpreted and presented. The results were analyzed separately by individual company as a case study. Thereafter, common patterns and themes were identified and presented.

The value of this research rests in its exploratory effort in theory development and does not claim generalizability beyond that effort. In addition it provides insight into specific utilization of databases for marketing. As Livingstone (1993) wrote:

Whether or not sustainable generalities can or even should emerge from (the) study of the particular remains to be seen and debated over the next decade.
(p. 10)

CHAPTER IV

Results

Before proceeding with a discussion and comparative analysis of the results, it is important to analyze each company separately to ascertain their utilization of database marketing by the application of the structure-conduct-performance framework.

Case Study of Computer Company

The first company that participated in the study was a giant computer, communications, and measurement company.

Market Structure

In the last five years, the competitive environment for this company has become very turbulent. With technological proliferation, and, consequently, erosion of the profit margin, the company has shifted from selling products in a more traditional marketing environment to selling products in cheaper, more aggressive channel-driven ways. The manager of direct marketing and technology noted some of the changes taking place in the company's marketing environment:

Because of price erosion, we have had to make a major shift in the way we conduct our business by moving from a direct sales force to a distribution channel using resellers, retail department stores, and superstore outlets.

The manager of direct marketing acknowledged that, by using a distribution channel, the biggest threat for the

company was losing touch with the customer:

Our reputation has been built on the customer truly feeling that their needs were being listened to and met. When you start selling products through a distribution channel, you start getting separated from the customer. The relationship is simply one step removed. The biggest challenge is maintaining customer contact in a non-direct sales environment.

The company found that the distributor was exerting control in advising the customers' decision making and in servicing the customer. Consequently, the company started investigating other alternatives. This was hastened by the rapid influx of technology and the conduct of the company's competitors. In fact, the company's competitors were already investing in direct marketing and selling products directly to consumers through electronic systems, like the Internet.

The barriers to entry are fairly high for this industry. This may be because there exists absolute cost barriers. Established firms have know-how, highly skilled staff, heavy capital investment, and goodwill and image in the market.

The company separates itself from the competition, in terms of actual product features, conditions of sale (e.g., service, price, and guarantee), and in terms of consumer perceptions about the company. As the manager of the corporate marketing communications department reported:

Across the company I would say that our main

separation is reputation. That is really our quality, reliability, service, and support.

The company further distinguishes itself by heavy advertising, periodic product upgrades and changes, customization of product, and other positioning strategies.

In terms of market growth, respondents forecast huge amounts of growth in the area of computing, but not in the traditional sense. It was envisaged that there would be a whole new generation of products with the advent of wireless technology.

Respondents unanimously agreed that the technological environment and competitive structure drove the need to shift to database marketing. The manager of the corporate marketing communications department explained why the company decided to implement database marketing when he noted:

Database marketing was our way of trying to fill the gap between customer satisfaction, understanding, and owning our customers, and selling to them in a cost effective way in spite of shrinking margins. It was basically because of the need to continue a dialogue with the customer, in an environment, where we were finding ourselves not being able to afford to do that in our traditional way.

In fact, all four respondents envisioned database marketing to be a stepping stone, allowing the company to move from an industrial age of traditional mass marketing to an information age of new relationship marketing; with power and control shifting from companies traditionally

selling products to the hands of consumers who will have more power, control, and choice in the decisions they make to buy products. The direct marketing and technology manager outlined some of the changes that will take place in the information age:

The information age is a fundamental shift in mindset. There is going to be a fundamental shift in power and we are going to have to meet the needs of the user to survive. So one of the fundamental things is to start an interactive dialogue and database marketing is the first step toward that direction.

Further, respondents predicted that the fundamentals of marketing would change dramatically in the information age, because of the vehicles of delivery and interactivity. Consequently, communication and promotion would have to be packaged very differently on the electronic networks. The need to integrate marketing strategies as a result of this trend was mentioned by the manager of the corporate marketing communications department:

In the information age, information will have to be contained in a very different way because of the self-selection process on electronic networks. We are going to have to understand that our very large business to business accounts and the ordinary consumer are both going to have access to the same electronic information and we are going to have to make sure that our marketing strategies are consistent across targets. It is going to be a very complex and challenging way to communicate. The way that we design the content and package information is going to change radically in the next five years. And database marketing will enable us to make these changes.

Market Conduct

Although the competitive environment determined the marketing strategies that companies set, in this case, the company was slower and more cautious in reacting to competition, largely because of the internal structure, philosophy, and history of the company. As the direct marketing and technology manager noted:

I think that we have been very calculating and slow to react. We do react, but we do so more cautiously than our competitors.

For example, in setting pricing strategy, the company was far from a market leader. The manager of the corporate marketing communications department explained why the company was not a price leader when he mentioned:

Our products have always been more expensive versus the competition, because we do truly believe that we use better quality components. And I think that is a distinctive difference between us and the competition that we still provide quality products.

This fits in with the distinctive capabilities that the company has developed in terms of the way it positions itself in the market which is, in turn, dictated by the way it chooses to compete. These competencies were described by the data resource manager:

Our capabilities have been our ability to bring products to market quickly and efficiently that cater to customer needs as well as a tradition of quality and support which is said to be one of the highest in the industry.

The company did not invest huge sums of money upfront

with specific objectives to create a database of customer information. The objectives were not clearly defined, nor formalized; it was an evolving process of experimentation.

The effort started as a data warehouse project to develop an integrated information structure and track the different efforts of orders, shipments, and inquiries that were scattered throughout the company. This would help to provide an integrated view of the company's relationship with its customers. The utility and value of collecting this information was not known ahead of time as noted by the data resource manager:

The use was not known ahead of time and the implementation of the project was an iterative and heuristic approach to development.

The more specific objectives that emerged from this process were to understand the nature and number of contacts that the company was having with its customers, to continue a dialogue of interaction, and in the process to understand the customer better with the intention of building a relationship and loyalty. These objectives became clearer with changes taking place in the external world such as losing control over the customer. This led the company to try to integrate all customer contact and information to service customers better and provide them with information they needed and cared about.

In fact, through the passage of time, the more

specific objectives of database marketing came to be closely aligned with the corporate mission of customer satisfaction. The direct marketing and technology manager described how database marketing fit in with the corporate objective of customer satisfaction when he noted:

Our number one corporate objective is to increase customer satisfaction. The whole concept of warehousing of information, linking of information, the intelligent use of that information is fundamental to achieving that objective. There is no way in today's environment that we are going to be able to increase customer satisfaction without understanding more about our customers and their needs.

The importance of gaining a multidimensional relationship with customers was stressed by the data manager of the direct marketing organization when she elaborated on how the database enabled the company perform this task:

The customer database was absolutely fundamental to the company vision of providing customers with a combination of our measurement, computing, and communication products. And it is only with the database that we are being able to understand the breadth of the relationship that our customers have with us as well as the depth. And in this way, database marketing truly goes beyond direct marketing.

The data warehousing project developed into a relational database which is maintained in-house. The advantages of this has been enormous for the company. In addition to being more cost effective, it has allowed the company to flexibly experiment with its use in ways beyond mailing lists and direct marketing. It has provided a

central focal point for the different areas of the company to come together which no external vendor could handle in terms of coordination. Also, because database marketing is new and since it was going to be important to the success of the company, it was critical to develop that kind of expertise and historical experience within the company.

This does not mean that the company does not use vendors from time to time and often some of the elaborate analysis is performed with the help of external vendors. However, the company ensures that all the different product lines use the corporate standards set for information. In fact, the company standardizes all the data it collects through all the different channels so that the information conforms to the standards of the centralized database system. The company started developing data standards even before it envisioned developing a database, and still maintains a very proactive policy of integrating external data so that it is ultimately consistent.

Once a week the data are loaded, additions and updates are made, and "merges/purges" are performed to "scrub" the data. The department plans to speed up the process and update nightly in the future. New lists/reports are generated and sent to the direct marketing organization, the primary user of the database.

All respondents agreed that the database is used in a

variety of ways across businesses within the company. The biggest use is for direct mail and outbound telemarketing efforts. Beyond that, it is used for installed based marketing--communicating to existing customers and cross selling new product upgrades and supplies. The database is also used for program and results analysis. It is used significantly to do market research on such things as product features, functions, and product extensions. Finally, the database is utilized heavily for focus group and survey recruitment, and testing promotions.

Further, it is also used to support the relationship marketing effort. In fact, the company sends out a magazine three times a year to customers who currently own a range of the company's products to provide them with information on new products and applications. A customer interaction and feedback mechanism is built into the program whereby customers can contact the company through different channels.

Since database marketing is relatively new and there are no established rules, the company is facing enormous challenges in implementing this technology. All respondents mentioned investment justification to be a major challenge. In fact, the company justified the expenditure on database marketing in rather unconventional ways. Each department funded small-scale projects, focused on smaller goals, and

built the database one piece at a time. With the success of these small projects, more money was invested. The data manager of the direct marketing organization explained the process:

The company usually does not make major changes in direction decisions in one swoop. It funds experiments and, if they are successful, they continue to grow painfully slowly in that direction. This was the policy with database marketing too.

All respondents mentioned that justifying return on investment from database marketing was a real challenge because it was hard to quantify benefits from database marketing prior to the initiation of the project. As the data resource manager acknowledged:

Database marketing by its very nature is something long-term and its benefits are to some extent intangible. Just the example of person A in one department and person B in another having to spend a lot of their time trying to figure out why they got different answers to the same question. I think that example shows that it is very hard to quantify to people. I think every one knows the value, but we are a very analytical company and we want more than anecdotal evidence. We want to see real quantifiable analysis.

Closely associated with investment justification was the issue of funding and resource allocation. Overall, the project was an incrementally funded program as opposed to cutting back in another area. Today, the company sees it more as an R&D effort as opposed to cutting back on advertising to pay for it.

Although there was no lack of long-term commitment,

respondents agreed that there was some impatience from time to time. Frequently, corporate commitment became diffused since the company was very large, and often other issues took priority.

The organizational structure of the company and some of the old legacy systems that were not equipped to deal with the changing environment emerged as a very serious challenge for the company. Consequently, the structures that were in place needed to be changed to fit in with a more non-direct way of selling. The company is seriously trying to address this issue. The data manager of the direct marketing organization explained why the organizational structure was not built to fit in with a non-direct sales environment:

We were a measurement company that became a computer company, as opposed to a computer company that built its legacy systems to somewhat deal with a less direct environment.

A related organizational challenge was in the area of sales channel conflict. However, respondents noted that the database could be used to work with the direct sales force efforts as a partnership to get added leverage.

Since product lines existed as separate businesses, communication to the customer is not integrated in terms of the products' customers purchase. This is a challenging task which the company is trying to resolve. The need to

provide an integrated picture to the customer is being driven by the information age, by the vehicles of delivery (Internet), as explained by the manager of the corporate marketing communications department:

We are finding that, with the advent of the information age, we will need to provide a single face to the customer. By using database marketing we have been forced for the first time to consider communicating our offering from a one company standpoint.

Further, since all product promotions and direct marketing programs are executed at decentralized locations, the process and results need to be coordinated with the centralized database. This takes time and effort. There is a need to get people to identify common areas to get added leverage from the database, rather than work in isolation. This was emphasized by the data resource manager who noted:

I think that one of the challenges we face is to get the different parts of our company to move together and identify areas of common interests because it gives us a richer picture of who our customers are.

In fact, since the company is very entrepreneurial, people are rewarded for creating their own databases. This is another limitation toward integration and support of the centralized database. Further, the traditional psychology of people and the way they perform their tasks complicates the situation. Traditionally people have preferred to keep information to themselves. This gave them more control, it was more cost effective, and the information was easily

accessible. As a result, there is some resistance toward sharing and joining the centralized database.

However, with the advent of client server computing and technology, it is becoming easier for people to access information through a centralized database structure, without the problems of dealing with programming, management, and maintenance issues. This was reported by the data resource manager who noted:

Technology is allowing easier access of information. In fact, database marketing is a functional effort to get people to change and work together to meet the needs of the information age.

Another environmental factor that is driving change is limited resources--companies are downsizing and are being forced to do more with less. This means pooling resources and working together. Hence, where there are opportunities to provide a common foundation of information, people are being forced to accept and share that information.

With regard to changes in organizational structure and ideal structures to effectively enhance the use of database marketing, respondents agreed that this would require the formulation of a virtual team, consisting of cross-functional groups of people doing different things of either collecting, maintaining, or using customer information, and being formally hooked together to maintain that linkage. As the manager of the corporate marketing

communications department noted:

We have got to create formalized linkages between all of our points of customer contact--so that we can come together as a wider group of technology and marketing people and provide the infrastructure which is going to allow us to maintain, collect, and use information about our customers and prospects.

This will require fundamental cultural change as the different sides of the company will need to come together to truly see each other as members of the same team. All respondents agreed that this would require greater cooperation and team spirit than ever before.

The question of hiring and training people is a complex issue for the company. Respondents concurred that recruiting and training people in a relatively new technology was slowing down development of the database marketing infrastructure.

All respondents universally agreed that the company follows a very proactive policy on the issue of privacy, especially on the electronic networks. The manager of the database marketing operation acts as a personal advocate of maintaining customer confidentiality and privacy.

Technology is definitely a challenge and the company is presently on a six-month technology strategy cycle. The company is in a process of upgrading from an IBM mainframe relational database to client server technology. The company does not invest a great deal on the tools used for

analysis and uses third party software for this task. This allows it to update the tools as the technology improves.

Converting the data to marketing intelligence is always a challenge. The company is trying to develop a system of electronically generating reports on a regular basis. These reports will become accessible throughout the organization using client server technology.

Presently maintaining data security is not an issue because the database is not accessed by any department except the direct marketing organization. However, the company is considering developing data security standards for electronic commerce which will be a challenge in the future. In fact, the direct marketing and technology manager stressed the importance of developing data security standards for electronic systems when he noted:

As we move into electronic commerce, developing secure paths and secure systems in our transactional protocol is vital. We will have to allow not only transactions to be secure, but also customers sharing information with us to be secure because it is so crucial to us to never let the customer down in terms of information they provide to us as part of our relationship.

Market Performance

The biggest impact that database marketing has had on the company has been the partnership of two very different departments--marketing and technology. As the manager of the corporate marketing communications department noted:

These were two very different groups of people who

never had to talk to each other in the past. And it has been the coming together of both technical and marketing folks, which has been one of our biggest benefits.

Another benefit for the company has been understanding customers in a truly integrated way. This has resulted in opportunities to sell more products, cross sell, keep customers more satisfied and therefore more loyal. The data manager of the direct marketing organization explained how database marketing had enabled the company to move toward more personalization and customization of promotions:

This has been the first opportunity to really understand not the total picture, but a more complete picture of who our customers are. We are starting to be able to recognize past customers when they call again and personalize communications--target as opposed to shotgun.

The creation of a common language has been critical to helping the company move toward the information age. As the data resource manager noted:

Some very significant progress has been made to create a language that people agree to. Database marketing has helped us to focus resources on creating and supporting a common source of data, and then making that data available to other people in the company.

In terms of sales, almost 5% of the company's revenue is truly coming from direct marketing. This figure is forecast to reach as high as 20% in five years, as a result of electronic commerce. Overall, the company has saved substantial money on areas such as eliminating duplicate systems, duplicate data entry, and maintaining data

quality. Generally, on a strategic level, database marketing has allowed the company to make a fundamental shift from the traditional product-is-king, conquest marketing organization--to marketing with a customer-centric focus.

The company is looking into defining and measuring customer lifetime value and will determine value from a long-term standpoint rather than short-term. As the manager of direct marketing and technology explained:

We truly believe that lifetime value is based on one, satisfaction, two, loyalty, and third, revenue. You are not going to get revenue from somebody who is not satisfied.

The company is already looking into the future evaluation of the database marketing program. The direct marketing and technology manager noted the reasons for the company using revenue and customer satisfaction as the two indicators to measure effectiveness:

First, traditional revenue and the return on investment. But just as important is customer satisfaction. This will truly be one of our biggest measures of the effectiveness. Customers will in the short-term accept lower satisfaction levels for a lower price, but they will not accept lower satisfaction levels--price or no price--in the long-term. Because somebody will do a better job of providing higher satisfaction for the same price, and that is going to be the person who is committing today to database marketing.

Case Study of Banking Company

The second company that participated in this research was one of the largest banks in the United States.

Market Structure

The banking environment has become highly competitive in recent years, with the influx of smaller community banks that can provide better service, personalized relationship marketing programs, and lower prices. Further, because of their size, these smaller banks can anticipate and react to growth opportunities more quickly.

In terms of product differentiation, it is very hard to differentiate products in the financial sector. The company creates product differentiation through aggressive image advertising, the established name, and goodwill, as well as in terms of service. The vice president of the marketing information and analysis department commented on how the bank differentiates its products:

We differentiate ourselves by what our research tells us, i.e., convenience. We are one of the largest banks, we have the largest number of branches and automatic teller machines.

The barriers to entry are fairly high in this industry. Established banks possess an image and reputation in the market, technical knowhow, and purely in terms of size.

The changing consumer environment has created much

turbulence within the banking industry. With the recession, there has been a change in consumer values and people tend not to spend as much as before. This has had strong repercussions for the banking industry. Some of the changes in the consumer environment were noted by the vice president of loan marketing:

Psychologically, consumers are trying to be in less debt and they are trying to get away from the whole idea of spending that was true of the 1980s. So it is a very tough environment.

Further, the consumer environment is more quickly changing, with consumers having different financial needs and demands. The rise of the ethnic population, for example, has broken down the consumer market dramatically, and led to fragmentation and the development of niches. One of the managers from the marketing information and analysis department acknowledged the problems of differentiating consumers into market segments when she noted:

The environment is such that while we try to segment people and cluster them, it is hard to do. The idea that America is a melting pot is not true. It is more a stew of some sort. There are distinctive ingredients in it. Today people want to be in America, but still want to retain all the vestiges of whatever ethnicity they had.

All the respondents agreed that the competitive nature of the environment drove the company to start investing in database marketing. The company noticed that other banks were collecting information and using that information

strategically. Therefore, it was a reactive, defensive strategy, as noted by the vice president of the marketing information and analysis department:

From the competitive standpoint, we see more and more companies using databases. You take a market like California; everybody wants a piece of the market. We are competing, often reacting, and most times trying to get ahead in the marketing strategies we are following.

Apart from the competitive environment, the need to understand consumers better drove the company to implement database marketing. In fact, the vice president of marketing information and analysis stressed the importance of using databases for marketing when he noted:

There is a concept called segment-of-one, and the only way we can get to that point is by using tools such as a marketing database.

Changes in the external environment were coupled with a change in upper management which led the company to undergo a change in philosophy. This changing philosophy was distinguished by the bank placing the customer at the center of all marketing, and providing products and services from the customer's point of view.

Market Conduct

Generally companies in this industry react to one another in the marketing strategies they set. However this action and reaction to the market structure is not always consistent because of the size and structure of the

company. For example, pricing strategy is driven by the internal structure of the bank. One of the managers in the marketing information and analysis department explained why the company will never be able to compete on pricing:

We will never be a price leader because of our structure. We have so many branches, we can never compete from a pricing standpoint. So we have to sell ourselves on something else, namely the highest standards of service and convenience.

Consequently, the company has developed the capability to operate in a way that complements its market position in the industry. These capabilities are no doubt the image, reputation, and goodwill that the company has built over time.

The company has two databases. Both are operated and managed internally--one for customers and the other for prospects. The customer database is updated every month and draws records from all the different points of customer transaction. This data is indexed by households to present monthly reports.

The database is controlled and operated by the marketing research department. In fact, when the company decided to embark on this project, the question of who controls the information became a big issue. The management felt that entrusting the project to the research division would ensure an objective and unbiased viewpoint.

Although the need to develop a centralized data

warehouse emerged in the marketing departments of the different product groups, the project was ultimately championed by a member of the upper management. In fact, the vice president of loan marketing stressed the importance of obtaining top management support when she noted:

I do think you need somebody at the very highest level that is going to champion this. This person in our company realized how behind the times we were. So if we didn't get on the boat, we were going to miss it. So it was sold to upper management emotionally too by the rationale that we were running out of time and all our competitors had already developed sophisticated systems.

The company clearly recognizes the high cost of new customer acquisition, and consequently, directs most of its efforts toward existing customers through cross selling products. The vice president of the marketing information and analysis department explained why the company concentrates its marketing efforts on current customers:

Part of the issue when you start going after non-customers is the cost, which means buying lists. Since we have so many customers with so many products to sell to, we can spend all our time trying to sell them one more product.

The product divisions use the database in a variety of ways at different levels of sophistication. Overall, the biggest use of the database is for advanced marketing analysis and segmentation. The database is also used for generating mailing lists and supporting telemarketing

efforts. Cross selling is very important, and considerable time and effort is spent locating customers by tracking their purchase behavior to cross sell other products. The database is also used for market research, to recruit customers for surveys and focus groups, and to test promotions.

The database helps to generate standard monthly evaluation reports that provide an integrated picture of all bank products based on household counts. This helps to track growth of households and customers. The database has also been used to develop pricing strategies, as well as to investigate old products that no longer exist with the possibility of bringing them back.

Although the company uses the database for relationship marketing, its use across the different product lines has not been very consistent or sophisticated. This was acknowledged by the vice president of loan marketing when she noted:

One of the things that we have not done as well as the travel industry is using the database for retention programs and loyalty building--the touchy feely stuff. We want to move in that direction in future.

The database is widely used to understand customer segments better and to direct promotions and products based on those segment needs. An example was illustrated by the vice president of loan marketing:

We use the database to understand and analyze our low to moderate income people, our Hispanic and Asian minority people, and to see how they are coming into the portfolio. For example, do they prefer coming into the branches, do they like direct mail, so that we know how to target them and tailor our communication message accordingly.

Challenges and issues facing the company were numerous. All respondents agreed that investment justification was an important issue that the company faced during the early days of development. The company justified the expenditure by drawing on all records of expenses that the different product departments were spending for the past two years for items such as list purchasing. This information was collected by market research and it was reported that the marketing database was going to pay for itself in the next two years.

In terms of long-term commitment, the company does realize that it is a trial and error process. As one of the managers of the marketing information and analysis department noted:

Unfortunately, in order to reap your rewards it takes time. It has to have a long-term commitment and what ends up happening is you stop and start.

Maintaining data quality, especially at the branch level, is a big challenge. In fact, if the quality of data is not rich and accurate, the whole technology application becomes redundant. Coping with input errors at the branch level was a problem that was noted by all the respondents.

The company presently faces an accessibility problem with the database. Since the tool is controlled by market research, all requests have to go through this department. This takes longer and more coordination is needed. Respondents agreed that, in the future, with client server technology, the tool would become more accessible.

The marketing consultant of the marketing information and analysis department explained how the downsizing environment had affected the database operation. She noted that, although the number of database requests increased daily, there were not enough people to handle the volume of requests:

As a result, it takes longer to process requests. I think the biggest problem is trying to get queries answered as quickly as possible. We have to constantly prioritize requests.

Because of the large size of the company and the decentralized nature of the organization, coordination of the different marketing efforts present challenges. Each of the departments have their own individual goals and targets which restrict sharing of information. As the vice president of loan marketing admitted:

We are not going to be rewarded or our individual department targets are not going to be measured by how many accounts we hand over to bank card or checking. We are only going to be rewarded by how many accounts we opened for our department.

The company does not provide a unified image to the

consumer in terms of its marketing programs. This was explained by the vice president of loan marketing:

The reason is that database marketing is in a developmental and experimental stage with everyone trying to do their own thing in their own department.

However, the company is presently working on a funding proposal to create a promotional history database, so that whenever any department goes out with an offer to the customer, the results will be available to the entire organization. In fact, the vice president of marketing information and analysis explained why it would become essential to integrate marketing strategies in the future:

When interstate banking becomes a reality, it will become essential to have one marketing system that will allow us to pull all the accounts from all the states. Right now we cannot do that because of regulation. But those laws are changing and those barriers will go away. And we need to have database marketing in place before that happens.

Regarding maintaining data standards, respondents admitted that they were not as sophisticated as desired. This was partly because of the traditional organizational structure and the systems that were in place which needed to be modified and enhanced to fit in with the changing environment. As the vice president of loan marketing noted:

Most of the master files of the systems of records are very old, archaic, and not that easy to expand. Many of the systems of records do not carry a source code.

Making changes in the system architecture requires funding proposals, which can become a long tedious process.

However, the company is talking about developing a common system of records very soon.

Privacy is a big issue with the company. Several uniform privacy standards are followed throughout the company.

Market Performance

Although each department evaluates each program separately through back-end analysis, and different departments have had different rates of success, overall respondents agreed that database marketing has enabled the company to save enormous money that was previously spent on list purchases and vendor services in general. In fact, one of the respondents determined that her department had been able to cut promotional costs by 25%, by eliminating duplicate mailings and being able to more effectively segment and target customers.

The prospect database has helped the bank save money. Earlier each of the different departments went to different list brokers to rent names. So there was a great deal of duplication, and of course, the quality of the data was questionable.

However, the biggest benefit of all has been the company's ability to understand its customers better. The advanced marketing capability and query capability has enabled the company segment its markets better to target

promotions and products accordingly. As the vice president of loan marketing commented:

The database has helped us to target appropriately to existing customers. We can communicate with them in the way they like. For example, I know what radio stations they listen to, I know what charities they give money to. So when we are talking to them, we can capture their interest.

Although the company has made a commitment to database marketing, making structural changes to accommodate the new technology for a company of this size is a long-term process. The vice president of loan marketing explained:

Some of the ways we traditionally did marketing is not going to change very easily in such a big company, in spite of a new marketing philosophy. We definitely do more direct marketing today than ever before. There has been a decrease in our advertising budget spent on mass media for our individual product lines. But there has not been any decrease on mass media advertising from a corporate image standpoint. We are very strongly committed to our corporate image campaign which will not change very quickly.

Case Study of Cruise Company

The third company in the study was a cruise company--a niche marketer of exclusive, ultra luxury cruises for affluent consumers.

Market Structure

The company operates in the environment of selling vacations in the leisure/travel industry. In recent years, the economic environment has become very competitive with the entry of large giants and small independents in which the general trend was toward conglomerations, mergers, and acquisitions. When the company entered the business in 1988, there was very little direct competition in terms of its unique product characteristics (upmarket, exclusive, and ultra-luxury). The company positioned itself as the Rolls Royce of the cruise industry, probably making it the most expensive cruise line in the world.

In recent years, however, a variety of companies have entered the business and tried to reach the same affluent market. There is competition not only from other cruise companies, but also from other auxiliary industries contained within the broader travel agency community. As the President of the company noted:

We are definitely competing with some of the fine resorts and hotels around the world.

The barriers to entry are moderately low because of the

high turnover of companies that is characteristic of all service/retail industries. There is a high level of product differentiation. This may be partly because consumers' tastes are diverse and the product itself is complicated. The company differentiates its products in terms of actual product features, conditions of sale, and service characteristics. Differentiation is increased by narrowly directed advertising, periodic product changes in terms of customization of product features, and special bundling of services. Because of a high level of product differentiation, there is less pressure on companies to sell at a single market price.

Travel agents are the major travel product distribution intermediaries who operate on varying levels of sophistication in terms of their business practices. They are vital for the growth and survival of this industry, as noted by the president of the company:

Agents are very critical to the cruise industry. In general, they make up between 94% to 96% of all sales. In our case, they represent about 98% of our business.

Consequently, the distribution outlet plays a very important role in advising the consumer to make his or her choice. The problem of dealing with a distribution channel was explained by the president of the company:

Prior to the time a customer comes on board, we have a distribution channel between us and the consumer. This presents a very serious set of problems. Overall, the

channel is very competitive and generally does not like to share information about their clients.

Since cruising is a new alternative to traditional vacation travel, the market is characterized by moderate demand. The director of corporate communications explained the trend:

There is more opportunity for people to take cruises today than earlier, yet it has only scratched the surface. Cruising still remains a very small percentage of the total leisure travel experience, but it is growing.

Although the market remains small, consumer perceptions of the cruise industry are very high. Market demand could be increased if psychological barriers to cruises were eliminated, if more aggressive promotion strategies were used, and if the right audience were clearly identified. With the aging of the population, the affluent consumer segment is a growing market; the number of Americans with annual household incomes of \$200,000 plus doubles every three to four years. This audience constitutes a large market waiting to be sold.

However, the affluent market is difficult to locate demographically and psychographically. As the president noted: "Affluent consumers are a moving target, they are literally all over the map." Consequently, the biggest competitive challenge is to reach this very narrowly defined audience.

Further, respondents noted that affluent consumers have what is known as an affluent mindset. They do not want to be approached as a mass. They are highly individualistic and wish to be treated as having individual plans and desires. Although affluent consumers usually prefer to use a travel agent rather than contact the company directly, traditionally, the travel agencies have not been effective in reaching this audience. As the president of the company noted: "They have in the past ignored this growing segment or usually not been able to understand them."

The company decided to implement database marketing for a number of reasons. First, the use of database marketing as a tool is almost endemic to the hotel, airline, and travel industry. The president acknowledged that this was because of the competitive environment, the nature of the service industry which promotes intangibles, and consequently, the need for personal contact:

Our business is very high touch. What allows these people to purchase your product is closeness to the customer.

Since the company was trying to identify a small niche with unique characteristics, who were difficult to locate, and, because of the poor performance of the travel agencies to reach this audience, and their increasing power over the customer, database marketing strategies became essential to this company. As the director of corporate communications

reported:

We had to speak to a very small niche and, therefore, there was a need to locate and approach this audience of affluent consumers in non-traditional ways. Further broader research on the affluent was unavailable and we hardly had any data to start with.

Because of the service nature of the industry, it became essential to provide customer satisfaction and promote loyalty. In fact, the president of the company explained how the database helped to track and monitor customer satisfaction, understand customer needs, and develop a proactive policy to provide higher service standards:

In our case it was a question of serving the affluent. And the only way to serve them was to capture every possible detail. Database marketing allows us in a seamless way to anticipate our customers' needs, when, in fact, a lot of automation behind the scenes has really stored this information to allow us to extensively serve them.

Market Conduct

In terms of market conduct, companies usually react to one another in the marketing strategies they set, primarily in the area of price cutting to attract demand. In this industry, companies set prices based on changes introduced by rivals. However, the president contended that price cutting did not always work because of the characteristics of the audience:

The psychology of the affluent consumer is not a low price psychology.

Further, when a product is as highly differentiated as this, the company is less sensitive to other companies' price changes. The company's pricing strategy is based on developing loyalty by selling value and satisfaction. Similarly, the company's product strategies are based on customer expectations of value and satisfaction. Consequently, the company has developed unique capabilities, enabling it to promote high service standards to maintain its position as the Rolls Royce of the cruise industry. As the director of corporate communications noted:

We have a commitment to total quality excellence as a philosophy which runs throughout the organization. There is not only a commitment to continually meet customer expectations, but also to continually seek ways to exceed those expectations.

This high level of service excellence is closely tied to the corporate mission, which is to literally be the best vacation product on earth. Consequently, customer satisfaction is very important and the database helps the company provide this satisfaction by building bonds with customers. This enables the company to convert customer satisfaction into profit.

Both the respondents explained how the collection of data from customers takes place in a highly unobtrusive and seamless way so as not to offend them. An example was illustrated by the president of the company:

If, for example, a crew member might hear that a

customer is interested in China, this information is automatically passed over to a cruise consultant who begins communicating to the customer about China. For us, gathering data has become an art form. It is just not a matter of filling out a survey because, with the affluent, it is not too easy to ask them to do that.

The company is highly market driven in its philosophy and operation, whether on shore or aboard. As the director of corporate communications reported:

This is a marketing driven company. Everybody is responsible for marketing. The marketing effort is an all encompassing thing in the company. It is definitely a top down approach from the President.

Internal marketing to employees to create a satisfactory service environment is an important priority for the company. The company has won some very prestigious readers' choice polls as the world's best cruise line. This substantiates its high standards of service and quality.

The company maintains two databases, one for existing customers, and the other for prospects. These two databases are operated and located at the site of a vendor company and used extensively by the marketing department. From time to time, bookings on the customer database are cross-checked with the prospect database.

The company began database marketing from its inception. Initially, it was handled in-house, but later as customer lists grew and more elaborate analysis was required, the company decided to use a vendor that has proven to be very beneficial. The advantages were explained

by the director of corporate communications:

We felt it was easier to go outside and get expert help rather than develop it ourselves. Besides, we could eliminate the time factor by using vendor services.

Consequently, the company has eliminated day-to-day operational problems. The president noted that it has been more cost effective to use a vendor service:

I would have to employ a lot of people to handle a program like that. It is just not justifiable in comparison to our size. We are just not big enough to spend so much on it, just to fill two ships.

The database is used in a variety of ways by the company. It is primarily used for customer retention and loyalty building. The travel and leisure business by tradition spends a large part of the marketing effort directed to present customers. For this company, past passengers constitute a very fertile ground for marketing, as noted by the director of corporate communications:

Right now, almost 50% of our business comes from past passengers.

To help promote loyalty, the company has introduced some innovative extra-value programs to develop relationships with customers. The philosophy is that travel products must be sold on value rather than on low price. The president explained the rationale:

When you gain a customer based on low price, the customer's loyalty is to the price and not to the company or product. So if we win customers that way, we will lose them the same way. The affluent value "value". They don't mind paying a fair price. If a

travel product delivers what is promised, affluent consumers will be comfortable with paying a fair market price. The satisfied customer buys multiples and returns for more. The dissatisfied customer often doesn't talk about dissatisfaction, he simply never returns.

The Club Member program serves as an interactive relationship marketing exercise to keep customers informed through the quarterly magazine. Since almost half of the company's customers constitute past customers, rewarding loyalty is very important. Members are offered a saving scheme if they keep returning through the accumulated Days-on-Sea program. The database is used to keep track of how many days those customers sailed. Other loyalty building programs are the early payment plan, world fare, collectors cruise savings, two for one air add-on, and the single traveller savings.

Since referrals bring in a large portion of the company's business, referral tracking is very important and the database is used extensively for this purpose.

Another important use of the database is to understand customer needs better to provide higher standards of service satisfaction. The president explained the importance of building a high touch relationship:

By keeping track of every customers' likes/dislikes, personal tastes, the company can service its customers better when they return. It is an extremely high touch relationship which the company nurtures.

The prospect database is used to a large extent to

generate mailing lists in response to magazine advertising. In fact, the company's advertising strategy is highly specialized and restricted to upscale publications to promote a product image that is consonant with the affluent consumer lifestyle. The company qualifies its readers further by attaching a price to their cruises. It does not provide a toll-free telephone number and further qualifies its customers by inviting them to call a toll number. As the president explained:

We are the only cruise line that does not use a 1-800 number. If you are figuring that somebody is making a \$22,000 purchase, calling a toll number is really not a big deal for them. Their motivation is completely beyond that.

The company has a strong commitment to product customization and innovation to meet customer needs, and the database is used extensively for this purpose.

Finally, the database is used to work cooperatively with the travel agency community. The company has actively gone to a consortium of travel agents and assisted them in putting together a direct mail program from their client lists. Since the company can determine the number of clients a travel agent brings in, rewarding travel agents is also a part of its efforts.

In discussing challenges of implementing database marketing, privacy emerged as a big issue with the company. In fact, the company has developed very strict codes to

maintain customer confidentiality, as noted by the president of the company:

Privacy is a big issue with our clients. I don't care how much somebody offered us, we are just not going to sell names. It is just part of our philosophy. So we adhere to very strict codes of privacy.

Maintaining data quality is always a big issue. The president mentioned some of his experiences of purchasing lists. He noted:

Database marketing works as good as the data that you really have. I have found that there are, unfortunately, some vendors who taint the concept of database marketing, because in fact what they have is some list they bought somewhere that doesn't always cut it.

Therefore the company follows a strict procedure of not purchasing any existing lists.

Market Performance

Because of the experimental nature of database marketing, the company has developed through trial and error some precise standards for measurement. The president noted the importance of developing succinct ways to evaluate database marketing:

The question of measurement tends to get very hazy with many companies. A lot of companies are using what I call the spaghetti theory. They throw it out and hope for the best. We tend not to do that. In fact, we have developed some succinct ways to measure.

The company prefers to look for patterns, performing a great deal of back-end analysis. The president explained the process:

When we have done a particular mailing, we know who we mailed to and then we follow that up with actual bookings. After that we match the cost of the direct mail database management on a particular project against the revenue that it pulled to determine what the gain was. And so through time we are able to chart the performance by keeping this record.

Although the company did not directly justify the expenditure on database marketing during the start of the program, after a couple of years of running, it was found that, for every dollar the company spent on advertising for a year, it was bringing two dollars back.

Other benefits that the company has received from database marketing has been the ability to narrow down the target audience very finely. The advanced marketing analysis capability has led to less waste of promotional dollars.

The ability to understand the customer far better than ever before has been the biggest benefit of all for the company. As the president noted:

As we go into the new millennium, database marketing will become much more significant in the arena of anybody who wants to serve a client particularly well. We are not trying to be everything to everyone. Instead we have carved out a very distinctive niche. There is no mistake about who we are. Nor is there any mistake about what people want. And the only reason we know that is because they are telling us. This allows us to serve them better.

He emphasized that database marketing needed to be a mutually beneficial process, eventually helping customers too:

Database marketing, if used in the correct way, is a plus for the consumer, because the consumer does not have to get hit with offers that they do not want or care about.

Overall, the company was very satisfied with the good returns from database marketing, and although the advertising budget is far greater than what is spent on database marketing, the company is slowly increasing its investment on direct mail programs.

CHAPTER V

Discussion and Conclusions

Reasons for Implementation of Database Marketing

Although each of the three companies in the study belonged to diverse industries, the factors in the external environment that drove these companies to implement database marketing were very similar. In fact, the results revealed that the market structure of all three companies was fairly homogeneous. This trend is because technology and the new information age are breaking previous barriers between companies and their competition as well across industries. It is evident that technology has drastically changed the dynamics of the marketplace and affected the marketing philosophy and direction of these three companies.

For the computer company, technology resulted in a major shift in focus, and impacted the industry in general, by accelerating the introduction of a new generation of products with the advent of wireless technology. It led to the erosion of price margins and, consequently, the need to use more cost effective channels for distribution.

Technology led to new forms of delivery and promotion with the advent of electronic commerce. This will, in turn, further revolutionize the way companies conduct business in the future, as well as erode walls between business to

business customers and home/personal consumers.

For the banking company, the influx of technology was more significant in terms of providing services, the conditions of sale, methods of delivery, and promotion rather than in the actual product features per se. Similarly, technology is playing a very important role in the way the cruise company conducts business with its customers through automation. However, rather than using the high tech approach, technology is being used to build the high touch approach, as noted by the president of the cruise company:

In our end of the business it is very high touch. But that is not putting a piece of technology between you and the customer, rather behind you to try to allow you to serve the customer as never before. Data gathering has become an art form for us which takes place in a rather unobtrusive, seamless manner.

In fact, the company uses technology as a back-end support to strengthen the relationship between the company and its customers. The president explained that it was high touch marketing using high tech tools:

The high touch approach means listening carefully. This allows us to place small details into the computer. Eventually we use the data to program various ideas that might entice a customer in the future.

Overall, helping to serve customers better, and offering benefits and convenience to customers was the universal impact of technology across all three companies.

As a corollary to technology advancement, the information age was very significant for the computer company. In fact, the company viewed information as an important ingredient for competitive advantage in the future. The data resource manager of the computer company explained the significance of the information revolution when he noted:

If you look back through history, the last major revolution was the Industrial Revolution in the 18th century which changed the whole nature of how people worked. And the Information Revolution is just as significant in its impact on people and the economy as the Industrial Revolution was. To put it in simple terms, the Information Revolution will mean having quality and integrated information available to people to help them to do their jobs better. And database marketing is the first step toward achieving this.

This transition is expected to have an enormous impact on the principles of marketing. Marketing is dramatically changing from mass marketing and the product-is-king concept to new forms of relationship marketing, no doubt a customer-centric focus, and consequently, the need to integrate all marketing strategies across the board. This idea was echoed by the banking company that had been historically very operationally driven, selling products and services without considering real customer needs and wants. As the vice president of loan marketing acknowledged:

Recently, with changes in upper management, our philosophy is changing and we have realized that we

have to give customers what they need, not what we want to give them.

Another factor that drove these companies to database marketing was the recession which resulted in downsizing and, consequently, greater accountability. This was expressed by the vice president of marketing information and analysis from the banking company when he noted:

Everybody is downsizing. Every penny is worth more nowadays, so being smarter about using those pennies needs to happen. So we have to be more precise in who we mail to get equivalent response.

For the computer company, it was more an issue of not being able to afford to put a direct sales representative in front of every customer, which led the company to start using distribution/retail channels. Although the rising power of the channel was not an issue with the bank, it was a critical problem with both the computer and the cruise companies, especially since a large percentage of their business came from this channel. The biggest threat for both these companies was losing touch with the customer. As the direct marketing and technology manager of the computer company reported:

When you start selling products through a distribution channel you start getting separated from the customer. The relationship gets one step removed.

Therefore, the rising power of the channel compelled these companies to develop ways to regain contact with their customers through the database, to continue a

dialogue, and to service and satisfy them in a totally new environment driven by technology and shrinking margins. As the data manager of the computer company noted:

We felt we needed to build a relationship with those end users on our own regardless of where they were buying, so we could protect whatever brand loyalty we already had.

In fact, the need to understand customers better and promote higher standards of customer satisfaction was an overriding factor for all three companies to invest in the technology.

The changing demographic and psychographic structure of the consumer environment, as a result of demassification and rise in ethnic populations was partly responsible for companies requiring to locate customers individually, build relationships with them to promote brand loyalty, and eventually try to move to the concept of segment-of-one marketing. This was very significant for the cruise company that found itself in an environment where the affluent segment had been ignored, current research was negligible, and this segment was hard to locate, hence requiring non-traditional marketing methods.

Utilization of Database Marketing

All three companies had clearly aligned database marketing with their corporate mission, which was commonly identified as customer satisfaction. The computer company

saw database marketing as fundamental to the corporate mission of using databases to understand the length, breadth, and width of the relationship with customers. For the cruise company, database marketing provided a tool to achieve and exceed customer satisfaction.

For both the computer and banking company, database marketing was a slow evolving process of experimentation, funded through small-scale projects, one step at a time. The basic objectives were to integrate all information and contact that the company was having with its customer and to develop a centralized repository of customer information. As the direct marketing and technology manager of the computer company noted:

It was an evolving thing and the reason that it became formalized was to use the information that we were getting more effectively in a changing environment.

Therefore, the utility and value of centralizing information was not known ahead of time as is the case with most database marketing efforts. However, for the cruise company, database marketing was an all encompassing effort which began since the inception of the company. This may be because the tool is endemic to the service industry, which sells intangibles and, therefore, has a critical need to build customer contact. As the director of corporate communications of the cruise company noted:

The question of whether to do database marketing or

not, did not come up. It is taken for granted in our industry if you want to get somewhere.

It should be noted that both the computer and banking company developed their databases in-house by integrating customer information files, and that they are being presently operated by the marketing departments that act as gatekeepers on behalf of the organizations. The advantages of managing this project in-house were fairly similar for both companies. In addition to the cost factor, the ability to provide a truly integrated picture of the customer by centralizing information and linking it to the different parts of the company would be impossible for an outside vendor to manage and coordinate, considering the size of the companies. Further, both these companies believed that, since database marketing was going to become important to their success, it was critical to develop that expertise and experience from within rather than rely on outside vendors. In contrast, the cruise company used an outside vendor to operate and maintain its database because it felt it would not be cost effective to develop expertise to do so internally, considering its small size.

Although the three companies were very different, they used their databases in similar ways with varying degrees of sophistication. It was most commonly and widely used for advanced segmentation and modeling for direct mailing,

which included supporting the telemarketing effort. It was also utilized to support market research activities, testing promotions, and product development ideas.

For the bank and computer company, the database was utilized for cross selling and upselling products. The computer company used the database to a certain extent to do relationship marketing and loyalty building. However, since relationship building was of primary importance to the cruise company, the database was extensively used for this purpose. In fact, marketing to present customers is a tradition in the travel and leisure business, and retention building programs constitute a major thrust of this company's marketing efforts. The cruise company used the database extensively for referral tracking and reward programs as well as for product customization and innovation. Programs to develop relationships--the high touch approach--were not so visible with the banking company.

Overall, the most common use of the database across all three companies was to understand customers better in order to direct products, promotions, and service to meet their needs. It is also interesting that all three companies were directing a large portion of their marketing efforts to current customers by way of cross selling other products rather than spending money on new customer

acquisition. While this trend is an acknowledged fact in the travel/leisure business, it was fairly pronounced for the computer and banking company as well.

Challenges and Issues of Implementation

Although all three companies were using databases with some level of sophistication, challenges and issues were fairly universal across the board.

Investment justification. This emerged as a fairly significant issue and all three companies used unconventional tactics to justify their expenditures. This was because it was hard to quantify benefits from database marketing prior to the initiation of the program.

Calculating return on investment was especially difficult for the computer company that operates largely in a business to business environment. This company justified initial investment through small-scale programs, setting realistic objectives over a long period of time, till it could show upper management the cumulative benefits that accrued. As the data manager of the computer company explained:

We see the process of experimentation as helping to educate our various businesses about why we ought to be doing this. We are still building this case. But in order to make people understand the need and impact, you have got to get some information that you can then take back. So it is a slow building process.

The bank justified initial investment by drawing on

all records of expenses that the different product departments were spending for the past two years on items such as list purchases, and other vendor services. The cruise company, in contrast, did not directly justify its investment, and saw this tool as essential to the very nature of its industry, as noted by the president of the company:

There was no question of us justifying the expenditure. It was a given and essential to our growth and development.

Although participating companies were talking about lifetime value calculations, few were actually calculating it or using it in their marketing strategy.

Long-term commitment. This definitely emerged as an issue for the bank and computer company, because in terms of marketing or advertising dollars, the management was always looking for instant payback. Although both companies agreed that there existed a long-term commitment, there was some impatience. As a result, the process of database marketing was almost cyclical. The vice president of marketing information and analysis for the bank explained the process:

What ends up happening is you stop and you start. Management changes, people's view of how to use this tool change, so you end up moving in one direction, then stop and move in another.

This was echoed by the data resource manager of the

computer company:

As we grow, and as we develop more experience with it, we discover that some of the assumptions that were made over a year ago may not have been true and you have to go back and you have to change some of the things--so its a cyclical process.

Corporate commitment. Although corporate commitment toward the database marketing project existed in both the bank and computer company, often other issues and priorities took center stage. As the vice president of loan marketing for the bank acknowledged:

We are a big organization and there are many other bigger priorities, so often you do not get the same level of commitment as you might expect.

This was particularly significant for the computer company that was very diversified. As the manager of direct marketing and technology noted:

We are a extremely diversified company. We are three separate companies, which makes our challenge much greater than a normal company that is much more homogeneous.

Organizational structure. Overall, it was evident that the slow pace at which these large organizations were implementing change was not usually because of management lethargy. It arose from the exceptional complexity of redesigning processes, management, and measurement systems. In fact, the organizational structure of both the bank and computer company presented some challenges to the more effective use of database marketing. Because of the

decentralized nature of both these companies, coordination of the activities of the different product departments with the centralized database presented some challenges. As a result, neither company presented an integrated face to the customer. As the data manager of the computer company explained:

Because of the way our corporation is structured, product lines are all different businesses. So when somebody sends in a registration card for a laser printer, that gets recorded as a printer person. And although the customer might have other company products, the communication and promotions are not integrated.

Further, both the companies were facing challenges in trying to enhance their current systems to deal with a new information-centric work environment. For the bank, it was an issue of trying to establish data standards and a common system of codes throughout the company. For the computer company that had mastered the art of creating a common language system, it was more an issue of upgrading and enhancing present systems to deal with a less direct environment and issues of sales channel conflicts. The manager of direct marketing and technology acknowledged some of the challenges:

As a result of the changing environment, the structures do not work and perform as efficiently as before. The structures that are in place need to be changed to fit in with a more non-direct way of selling.

Other related common organizational problems that both

companies shared was that, since there was a limit on the quantity of data that could be stored per customer on the database, a great deal of negotiation and teamwork was required across all the different product lines to identify common needs to get added leverage. This required a great deal of team work as noted by the data manager of the computer company:

You have got to make trade-offs and come to group agreements about what is going to be on the database and that just takes a lot of work and negotiation.

Consequently, often the motivation was to go ahead and create one's own database rather than working together in building a centralized one. In addition, since the computer company was highly entrepreneurial, individuals creating their own databases were rewarded, which further complicated the situation.

Another challenge for both companies was the traditional psychology of people who preferred to keep information to themselves, and the social and human factors that needed to change if the company were to take full advantage and become a market driven learning organization. However, technology, especially new client server technology, will in the future help eliminate these barriers and allow easier access of information throughout organizations. In fact, respondents from the computer company saw database marketing as a functional effort to

break these traditional barriers and get people to look at information from a more integrated perspective. Further, client server technology will allow intra-organizational access to information in the future.

Closely associated with technology, which was driving companies to change internally, limited resources emerged as another factor that was forcing people to work together across product departments and share information. In fact, again, the environment, more specially the information age, was driving the need for diversified companies such as the bank and computer company to become more integrated in their marketing approach and communicate offerings from a single-company perspective. The database provided the first step toward moving in the direction of integration. This trend will become even more critical with the advent of electronic commerce, which will require companies to have consistent marketing strategies across all their product lines.

In discussing the ideal organizational structure to optimize use of database marketing, both the bank and computer company visualized a highly decentralized, flat, dynamic structure with the formulation of virtual teams, that are electronically hooked together to create and maintain linkages at all points of customer contact. This would require greater teamwork and cooperation than ever

before and an integrated mindset.

Benefits from Database Marketing

The most outstanding and universal benefit across companies was their ability to gain a more integrated and fuller picture of the customer. Other important benefits were that database marketing had enabled these companies to save significant promotional costs by way of eliminating list purchases, duplicate mailings, and, in general, by enhancing the quality of the data. As the president of the cruise company noted:

It narrows down your approach again and again so that you can completely eliminate wastage. The more sophisticated you can get with it, the more money will be spent accurately and concisely. Instead of being a shotgun approach which goes every which way, this is a laser beam focusing in right where it is supposed to be.

The computer company saw the emerging partnership between information technology and marketing--traditionally two separate departments speaking two very different languages--coming together as a very significant benefit.

In addition, the computer company saw the creation of a common language system and data standards to be critical to enable it to move toward the information age.

For the cruise company, an important benefit from database marketing was that it has not only helped the company tremendously, but also its customers, in communicating about products/services they cared about and

desired.

Overall, all three companies saw database marketing as allowing them to move into the new millennium of the information age. For the most part, database marketing created no revolution in these three companies. Rather, it was a slow evolving process of experimentation, trial and error, reflecting the same underlying principles of customer satisfaction that guided these companies from the beginning in a much changed environment.

The Implications of Utilizing the Structure-Conduct-Performance Framework

The value of using the structure-conduct-performance framework was that, in addition to providing useful categories for organizing business information, the framework also embodied the key hypotheses of economic theory. Caves (1987) elaborated:

Theory tell us that the market structure (environment) determines market conduct (the behavior of economic agents within that environment) and thereby sets the level of market performance. (p. 14)

Consequently, if a reliable link between elements of structure and performance could be discovered, a powerful tool for analysis and policy could be created.

In this research, apart from the framework being valuable in guiding the inquiry, some significant findings emerged from the application of database marketing to this

framework. In many cases, it was evident that market structure was affecting the conduct of the companies under observation. Consequently, the framework was following a linear order as predicted.

The advent of new technology, competition, and the rising power of distribution channels--all environmental factors--were clearly driving companies to implement database marketing as part of their operational philosophy.

However, in other instances certain patterns were observed that reveal that the structure-conduct-performance framework is not as unilinear and sequential as expected. It was observed through discussions with all three companies that many times it was the conduct (utilizing database marketing, for example) that worked backwards to affect the market structure. This was illustrated by the vice president of marketing information and analysis of the banking company, when he noted:

We see more and more organizations using databases for retention, cross selling, and prospecting. So whether you believe in database marketing or not, you have got to do it. The other company is doing it, they are spending incredible amounts of money on it, so they are obviously getting results, which is forcing us to invest too.

Another significant finding that emerged was that the performance of some competing companies (how successful they were with database marketing), in turn, affected the structure and conduct of a different company. This,

consequently, affected the targeted company to behave in certain ways, which changed the market structure. As the manager of direct marketing and technology of the computer company acknowledged:

We will wait and see how well our competitors do with their initiatives with direct marketing, what they do, how they do it, and what results they get, before we move forward.

So there was a trend of companies acting and reacting, which was changing the equilibrium of market structure. It is evident that in the present environment, no business is an island--actions taken by one organization affect decisions made by the competitors and vice versa. As the vice president of loan marketing of the bank noted:

Our competition often finds that you have done something successfully, so they pick it up and then you have to move on to something else.

While the external environment (technology, distribution channel) was to a large extent driving companies to invest in database marketing, it was also the conduct of other companies (i.e., how successfully they use database marketing), which was changing the dynamics of market structure. Therefore, how a company uses the database in terms of the sophistication of its application is emerging as a potential barrier to entry for new companies wishing to break into the industry. In fact, the research showed that it is exceedingly difficult to

separate variables of market structure from conduct as the two overarching elements were highly interconnected and enmeshed together. This was particularly true for the cruise company that saw database marketing as endemic to the travel/leisure business.

The greatest effect database marketing appears to have is on product differentiation. Under the framework, product differentiation can be built into the product itself, or differentiation can be created by the conditions of sale, guarantee, service, advertising, and consumer perceptions. The study showed that database marketing has provided companies with the means to do this more quickly and more detailed than ever before by understanding consumer profiles, customizing product and service, creating innovation, and selling directly to consumers based on their needs.

For example, in the computer company where there is a fairly high seller concentration (a few giants dominate the market particularly because of license agreements, resulting in "clone" products), the company uses database marketing to differentiate its products directly to save middleman costs. Similarly, with the cruise company, although there is a low seller concentration, companies within the industry still use database marketing for creating wider product differentiation and innovation.

Consequently, database marketing allows greater product differentiation than ever before, which ultimately expands marketing strategies available to companies. In the future, the ability to produce customized products that meet the specific needs of individual consumers as opposed to targeted segments will be critical to differentiation, and the creation of sustainable competitive advantage.

According to Caves (1987), although performance is equated with profitability and sales dollars, this became difficult to investigate in the research as most companies were hesitant to provide bottom line figures. Further, since by its very nature database marketing is a long-term commitment and the database is always in flux--in a developmental stage--it became difficult to pinpoint what percentage of profits were indeed from the implementation of database marketing itself. Although companies were looking to evaluate database marketing in the future, in terms of monetary returns and customer satisfaction, they were presently tending to evaluate database marketing by using short-term variables for measurement.

Further, the study revealed that the internal structure of a company had a strong impact on the way database marketing was utilized, and the current revolution in marketing information was putting an enormous stress on the traditional organization. In fact, both the banking and

computer company were in the process of enhancing their internal structure and systems to more effectively use the tool.

Economists who use the structure-conduct-performance framework disagree on the details of the causal relations it contains (Caves, 1987). Some give market structure and conduct equal importance as determinants of performance, while others suggest that much of market conduct is unimportant. In the future, it appears that, as a result of the information revolution, market conduct will become extremely important because how organizations manage and apply information will become key to growth and survival. It is evident that the information revolution has resulted in an exponential increase in the amount of data available within organizations. Presently, many companies find that they are data rich, but information poor. Therefore utilizing the information gathered and generating, managing, and communicating insights will be the crucial determinant of performance. It is envisaged that in the future, management by wire, i.e., the ability to manipulate the business by manipulating information (Haeckel, 1994) will be the hallmark for success.

Although it is not the intention of the researcher to generalize these finding above and beyond the companies themselves, the results clearly identified database

marketing as a major link, if not the only link between market structure and performance. The importance of obtaining a reliable link has been discussed earlier and forwarded by Caves (1987). In the information age, companies are being defined by their relative levels of information intensity to survive and succeed. The database provides the wealth of information that companies need to enhance their performance in this new environment. Further, who controls the customer will be a key issue for corporate success. In fact, competitive advantage will go to those organizations that best manage these relationships (as opposed to other resources) and in effect, control the customer through direct contact and the continual exchange of information through the database.

If this is the case as the results predict, the structure-conduct-performance framework may need to be modified to take into consideration the changing environment and the impact of technology. However, since the study was limited to three companies, more research is definitely warranted to investigate this trend and verify patterns observed.

Implications for Database Marketing

The results of this research raise significant questions about the nature and future of database

marketing. Database marketing is playing a critical role in not only allowing companies to move into the information age, but also as a weapon to maintain their market position. Consequently, only those companies that can fully utilize this tool and integrate it into their organization will reap enormous rewards and benefits. In addition, the way in which companies utilize database marketing in terms of the sophistication of its application is emerging as a potential barrier to entry for new companies wishing to break into the industry.

Most important, the results revealed that database marketing is the first step for companies to move from a historical mass marketing orientation toward practicing new forms of marketing from a customer-centered perspective. Technology and the information age is transferring power and control into the domain of consumers through interactivity. The rediscovery of the customer is a byproduct of the onset of the information revolution. Consequently, companies will have to shift their center of marketing gravity from offerings/products to customers/solutions. In the future, technology will definitely bring enormous benefits to the consumer by creating higher standards of service and quality and/or more user-friendly products. Eventually, database marketing can reap enormous benefits for consumers, only if companies

develop strict codes and standards of practice.

Although the three companies in the study may not reflect general practices characteristic of their industries, the results do reveal that no matter what industries companies belong to, in future, database marketing could be a major component that will connect companies in ways never considered before. And it is truly the information age that is ultimately dissolving boundaries between companies and their customers and between companies themselves.

Directions for Future Research

The study results are limited and cannot be generalized to other companies that are using database marketing. Consequently, more research, including quantitative studies, definitely need to be conducted on a larger cross-section of companies to determine whether the trends and patterns observed in this study are indeed generalizable.

Further, if database marketing is to be successful, it has to ultimately help consumers. New interactive technology has empowered consumers and put them in closer touch with business. Consequently, researchers need to examine how consumers react to database marketing strategies, and the conduct of companies in implementing these strategies, to provide the reliable link between

structure and performance that Caves (1987) mentioned. Therefore, any future research should definitely address consumers. Questions such as: What are the perception of consumers toward databases? What have been their experiences? What changes would they like to see in the way companies collect information about them?

It is important for companies to understand how their customers feel about particular database marketing strategies. There has been much controversy and media coverage of violations of consumer privacy, and companies need to address these issues and take a proactive approach. Many consumers today fear the information revolution. They resent the proliferation of direct communication. The potential for inflicting serious harm on consumers definitely exists, and until legislation clearly defines where privacy rights begin, self regulation might mitigate the risks and costs.

Further, this research has primarily been limited to companies executing database marketing strategies in the United States. With the internationalization and globalization of business, an area for future research is the examination of how database marketing works in other countries in the context of their culture and regulatory environments. Questions should address how database marketing can be operated successfully across international

borders.

This research has barely scratched the surface as far as investigating ideal organizational structures in the information age, as well as issues of data management, systems integration, and the need to build models to effectively summarize the data. These issues present enormous potential for future research that will help organizations make the transition to becoming more solutions oriented in the next decade.

Conclusions

Although database marketing is presently firmly entrenched in the folds of direct marketing and is playing a role as a gatekeeping function, the information revolution will require companies to be more than direct marketers--i.e., go beyond customer identification to the process of customization or partnering with the customer in designing, developing, and delivering products to meet the customers' specific needs. This will result in a two-way communication system with the customer as an active participant--a partner in the production process.

Database marketing needs to become integrated with the overall marketing philosophy of a company for organizations to understand the multidimensional relationship that a company has with its customers as well as to determine the impact of the relationship-building exercise on the bottom

line. In the future, database marketing will play a key role in helping companies integrate their marketing strategies.

Database marketing will compel companies to carve out distinct niches for themselves. Rather than trying to be everything to everybody as was the historical mass marketing approach, companies will be forced to develop meaningful relationships with fewer customers based on their lifetime value. Since information management allows every customer to have a unique relationship with the company, then each customer will effectively become a segment, and the concept of dividing up the market into homogeneous subgroups will become obsolete. Eventually, who controls the customer in the decision making process, whether it is the channel or the company, will continue to be debated in the years to come and only those organizations that are able to help customers simplify their buying process through information management will ultimately be the ones to succeed.

In conclusion, technology now exists to manage relationships--initiate them, nurture them, and defend them, on the scale of mass marketing, but with the flexibility of individual marketing. Database marketing has arrived and is here to stay. It will change the organization and even the way business has been

traditionally conducted by helping to create communication corridors to enable interactive contact, to integrate data throughout all the customer touch zones to allow a multidimensional view of customers, to provide solutions rather than products, and eventually, build customer trust and respect.

Database marketing can only truly become a core competency of a organization when marketers look at the individual customer in totality, as a real person, rather than as part of a mini mass market and the whole marketing process ideally works as a two-way system, benefiting both parties, the consumer and the marketer. Consequently, it is essential that education, correct usage, and sensitivity are critical to database marketing success in the future. Eventually, database marketing will be the tissue that connects customers and companies, people and products. It will no longer be a function, a thing, a department, or a discipline. It will be the fundamental way of approaching business in the information age.

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APPENDIX

DATABASE MARKETING QUESTIONNAIRE

Market Structure

Environmental Factors: Reasons for Implementation

1. Can you describe in as much detail as possible, what changes have been taking place in your environment?

PROBES

Cooperative environment: supplier, distributors, resellers

Competitive environment

Economic environment

Social environment

Political environment: lobbies, consumer groups, critics

Legal environment: government

2. When and why did your organization decide to take the path of database marketing? Why was it needed? What was the deciding critical factor to implement database marketing for your organization?

PROBES

- Availability of technology/information
revolution/time sensitivity of information

- Deregulation/competition
(competitor concentration/hostility/
aggressiveness)

- Market pressures:

Market structure heterogeneity: Demassification of the market

Market growth rate: strong versus weak demand

Shift to service economy/new standards of service

Decline of Brand loyalty

Changing definition of product/Commodity

Failure of Couponing

Erosion of price margins

Direct Marketing/new ways to shop and pay
Changes in distribution channels/power shifts to distributor/ Bargaining power of supplier
Falling ratings/skepticism of mass media/Advent of new media
Rising costs of postage/paper/printing/people

- Consumer pressures:
Demographics
Psychographics/lifestyle
Diverse requirements/needs/greater sophistication

3. What triggers seemed to impel your organization to seriously pursue a market orientation?

Distinctive internal capabilities of company

4. All companies develop distinctive capabilities versus their competitors for carrying out their activities. This could be in terms of their market position or in terms of their competitive strategies (quality leadership, technology, marketing, relative profitability). What would be the unique capabilities of your organization that has helped you develop a market position and retain it and which is in turn dictated by the way you choose to compete?
5. What were/are the objectives of implementing a database marketing program in your organization?

Market Conduct

Definition:

6. How do you define database marketing as it currently applies to your organization?

PROBES

- superior form of mailing list to aid direct marketers/direct mail
- new way of defining the relationship between company and customer based on customer intimacy
- operational philosophy for the company; strategic alignment

- centralized/integrated-top management driven commitment as well as bottom-up redesign of the underlying process

- Reactive/proactive

- Part of a comprehensive process improvement program (attention to maintaining the quality and integrity of the data with constant fine-tuning and upgrades to keep up with technology flows and market intelligence obsolescence). Continuing monitoring of progress.

- the ability to integrate market sensing and customer linking capabilities

Differences between database marketing and traditional marketing:

7. What are the major differences in the way you see it, between database marketing and the way marketing was traditionally practiced? (conquest vs relationship)

Strategic focus/importance:

8. How does database marketing fit in with the corporate mission of your company?
9. How does database marketing fit in with the strategic/marketing direction of your company?
10. What role do marketing databases play in formulation of corporate/marketing strategy for your organization?
11. How has the database been integrated with the overall strategy of your organization with respect to the following:

- Sales strategy
- Technology strategy
- The ability to capture data
- Measures being taken by other departments or divisions in the organization to achieve a synergistic information distribution throughout the organization

12. Which part or person in the organization (top/middle/lower) became the champion of the database

marketing system? How did this effect the implementation of this program?

Relationship Marketing (commitment and trust):

13. What steps, if any has your company taken to develop a relationship marketing perspective or a perspective based on collaborative relationships?

- customers
- channels of distribution
- goods suppliers
- competitors
- service suppliers (market research/advertising)
- employees (internal marketing)

14. How importantly do you rate maintaining customer loyalty/satisfaction and what customer loyalty programs have been implemented to do so?

15. How does your company choose which customers to link or develop relationships with?

Benefits/Uses of Database Marketing

16. In what ways do you use the marketing database in your organization?

PROBES

- Customer acquisition and maintenance/ strengthening customer-corporate relationship/ loyalty management/ defection tracking
- Market research/pulse tracking/ monitoring market motions and trends/ benchmarking/ query capabilities/ tracking under-performing segments
- Product development/tailored services /upselling/crossselling /affinity marketing/ migration into new markets
- Promotion development/testing

17. What has been/ will be the most important database marketing benefits to your organization?

PROBES

- Substantial what-if capabilities
- Advanced marketing analysis capability
- Greater processing speed and data availability
- Potential economic benefits/
measurability/accountability
- ability to sense events and trends in the market
ahead of competitors: Anticipatory capabilities

Barriers/challenges/issues:

18. What are the important database marketing issues/challenges facing your organization?

PROBES

Organizational Issues

- Investment justification (how to calculate ROI on DBM)
- Resource allocation: dollars, people and time
- Lack of long-term commitment/impatience
- Lack of corporate commitment
- Whether the dominant coalition is marketing, finance or information technology
- Database marketing suffers from having a strong functional home
- Balancing database needs in marketing versus other functional areas
- Sales channel conflicts
- Problems with internal IT departments

- The need to change organizational philosophy/
organizational restructuring (is it necessary: how do
you manage to integrate departments, SBU's, products,
service, channels, promotions to provide a unified
image ultimately to the customer)
- Resistance from lower or middle management
(technology shy) (poor understanding of principles and
their application and utility to long range goals)

Implementation Issues

- Evaluating the benefits of using an internal database
versus a service bureau (why did you have it in-house
versus using a vendor; advantages and disadvantages)
- Recruiting, training and retaining qualified people
to maintain the database (technical and marketing/
sales people)
- Addressing database marketing privacy
issues/developing data protection and customer privacy
policies/Customer advocate
- Replication of marketing efforts and customer contact
conformity (what steps have you taken)
- Rapidly emerging technology (is fast changing
technology an issue regarding choosing
hardware/software and its application utility 5 years
down)

Operational Issues

- Providing enough capacity to meet the needs of all
users
- Developing and enforcing uniform organization wide
standards for data
- Maintaining data security
- Deciding what to save, how long to save it, etc.
- The need to update data regularly. The high rate of
market intelligence obsolescence

- Integration of all data (External and internal)
 - Maintaining data hygiene/data integrity/qualification and verification programs
 - Converting it to marketing intelligence
19. What steps is your organization taking to maximize utilization of database marketing capability with respect to these issues?
20. Can you explain, in a little detail, if possible, how the organizational structure of your company affects the performance of database marketing either positively, or negatively, or both?
How do you integrate the objectives and activities of each SBU in terms of:
- multiple products/services
 - channels/vehicles/media
 - communication
 - the different departments (manufacturing, R&D, IT, marketing/sales) implementing the above
21. What would be an ideal organizational structure to maximize performance of database marketing?
- would that require fundamental cultural change?
 - organizational restructuring-decentralization
 - bottom-up redesign:flatter/flexible
 - top-down direction
 - integrated IT approach
 - the locus of decision making be as close to the customer as possible

Market Performance

22. If you see database marketing as a tool to help improve your orientation toward the market, how has it, in what ways contributed to improving your market orientation?

23. What has been the tangible-quantitative and qualitative-results of database marketing programs on:
1. profitability, sales, market share, return on equity (ROE)
 2. lifetime customer value
 3. setting corporate goals
 4. setting investment strategy (spending more or less)
 5. in terms of objectives of implementing
24. How does/will your organization evaluate effectiveness of database marketing? What are the Key Performance Indicators to monitor?

PROBES

- self sufficiency:building up internal capabilities
- use of technology: successful exploitation and absorbing new technologies
- organizational structure and standing: credibility and visibility of database marketing team throughout the organization
- relationship with IT or service bureau: non threatening/cooperative
- use of advanced analysis techniques
- primary focus: strategic
- successful integration of each SBU's product/service/communication to the customer